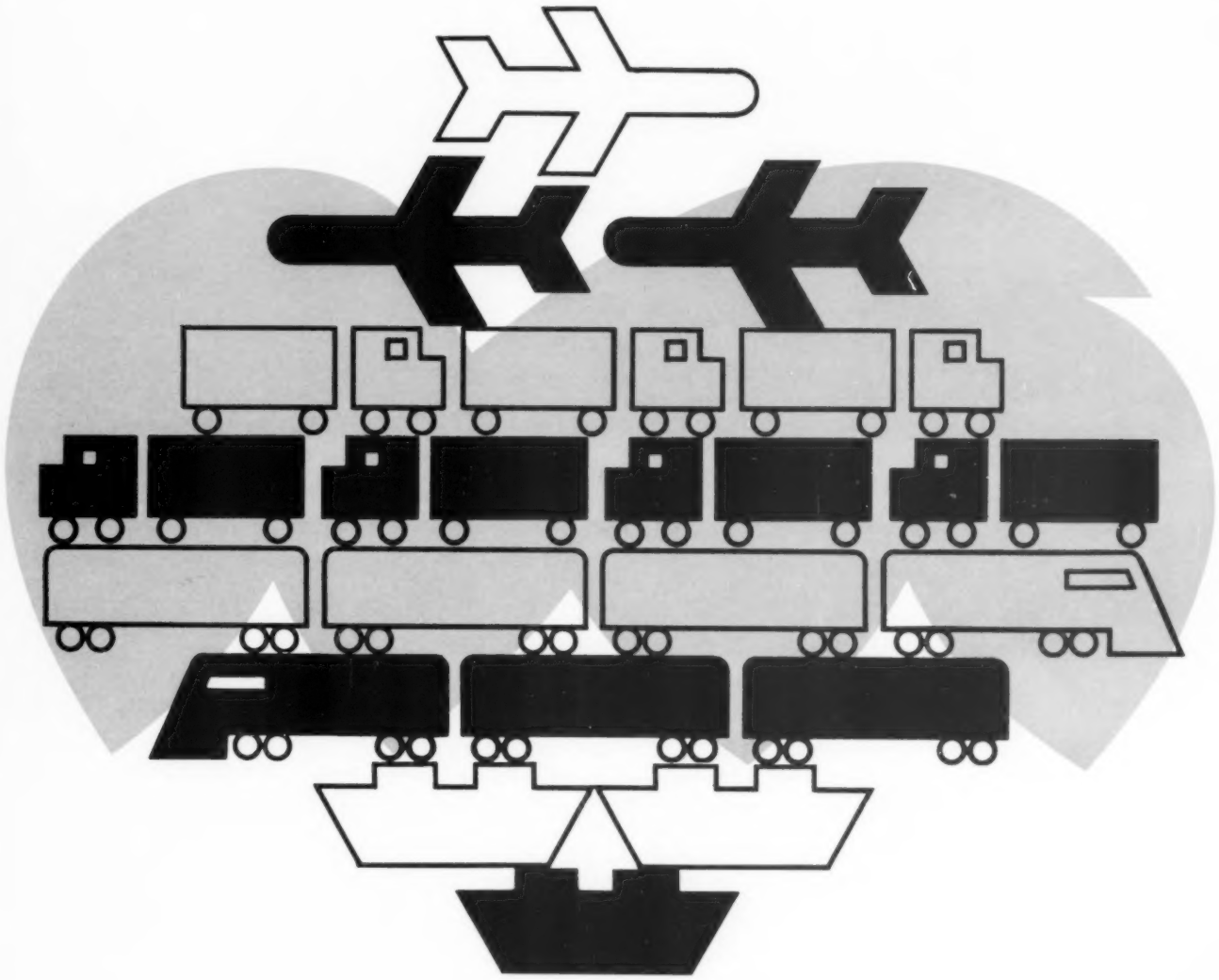
COMMERCE AMERICA

U.S. Department of Commerce / January 30, 1978



World Trade Outlook

The U.S.-Japan Trade Facilitation Committee

(This message to the American business community is from Secretary of Commerce Juanita M. Kreps.)

For the American business community, the most important result of the recently-concluded series of trade consultations between the United States and Japan is the announcement by the Government of Japan of its intention to reduce or eliminate many of the trade barriers which impede American business firms' efforts to export to Japan. This initiative provides the opportunity for increased access to the Japanese market for American goods.

To support this program of trade expansion, the United States and Japanese governments have established a U.S.-Japan Trade Facilitation Committee. This joint Committee is to assist American firms in overcoming specific problems they face in Japanese markets. The Committee's work complements broader U.S.-Japan efforts to remove trade barriers in the Multilateral Trade Negotiations and in other areas of U.S.-Japan trade and commercial relations.

The Trade Facilitation Committee has already dealt successfully with Japanese barriers to U.S. exports encountered by American firms. One case involved excessive duty charges resulting from an incorrect tariff classification; another involved governmental "administrative guidance" which restricted Japanese purchases of a specialized U.S. manufactured product. Other cases are in process, and more are being communicated to the Department of Commerce every day.

Under the auspices of the new Trade Facilitation Committee, the Department of Commerce and the Japanese Ministry of International Trade and Industry are now conducting seminars in major American cities focused on the techniques of marketing in Japan. The Committee is also working on ways to increase the availability of financing for American exporters and Japanese importers as well as on broader trade policy issues.

The effectiveness of the Trade Facilitation Committee will depend on the willingness of American business to provide detailed information on specific trade-related difficulties encountered in the Japanese market. If your firm or industry has experienced—or anticipates—export marketing difficulties in Japan, please advise this Department about them. Write or phone: U.S. Department of Commerce, Industry and Trade Administration, Washington, D.C. 20230, 202-377-5620.

The Japanese Government has pledged its full cooperation in removing obstacles to American exports to Japan. The Trade Facilitation Committee will help you in meeting this challenge.

The Trade Facilitation Committee is working to increase American exports into Japan by:

- Resolving specific problems encountered by U.S. firms in the Japanese market;
- Identifying U.S. products with high sales potential;
- Intensifying Japanese import promotion and U.S. export promotion activities;
- Encouraging expanded banking services to U.S. exporters and Japanese importers;
- Increasing the number of Japanese buyers' groups visiting the U.S.;
- Organizing seminars on the techniques of marketing in Japan, and
- Identifying those aspects of the Japanese market structure that may impede imports.

Juanita M. Kreps

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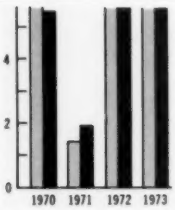

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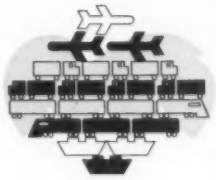

COVER: This semi-annual special World Trade Outlook issue summarizes the current economic trends and outlook for U.S. sales around the world. The 69 articles on pages 6-48 are based on U.S. Foreign Service reports and other sources.

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Tax Proposals Designed To Strengthen Business Investment

This column was prepared by Commerce Chief Economist Courtenay Slater in collaboration with G. Donald Hanrahan.

Dr. Slater

Businesses plan to increase their investment in new plant and equipment by about 10 percent this year, according to a Commerce Department survey conducted in late November and December. The same survey indicates that plant and equipment spending increased 13.7 percent in 1977, or about 2½ percentage points above the 11.3 percent anticipated increase revealed in the survey conducted a year earlier. It may well be that this year's survey similarly underestimates the plant and equipment spending which will actually occur. As economic growth continues and as uncertainties regarding tax and energy policy are resolved, businesses could well revise their investment plans upward.

Capital goods prices rose about 5½ percent last year, so that after adjustment for inflation, plant and equipment spending increased about 8 percent. If this year's inflation rate is similar, the latest survey suggests real investment growth of about 4½ percent.

Tax proposals which the President has just transmitted to Congress would directly enhance both the cash flow of corporations and the attractiveness of additional investment expenditures. The tax reduction for individuals will stimulate final consumption demand, boost rates of capacity utilization and profit margins, and, perhaps most importantly, provide an economic environment in which business can anticipate steadily growing markets for its products. These factors, and an early resolution of energy legislation, should all be strengthening factors in the investment outlook.

Businesses' desire for investment naturally grows stronger as existing capacity becomes more fully utilized. Capacity utilization rates increased in the early months of last year, but have since shown little change. In December the Federal Reserve capacity utilization rates for manufacturing was 83 percent and for materials industries about 82 percent. Both are well below peak rates experienced in 1973, particularly after adjusting for the lower utilization rates in advanced processing industries in 1973, caused, in part, by a very tight capacity situation in primary processing industries. The rate of capacity utilization which draws forth increased investment expenditures is hard to determine precisely, but it is certainly reasonable to suppose that it is well below the tight capacity situation that prevailed in 1973. While capacity utilization is not high at this point, the rate at the end of 1977 is a full 2 percentage points above the rate of the end of 1976, a factor which will cause continued economic growth to be more rapidly reflected in the need for new facilities.

Further upward pressure on capacity utilization rates and proposed broadening of the investment tax credit may induce stronger increases in spending for structures, which usually represent large, long-term commitments. Spending for structures, in real terms, rose only 3.6 percent last year compared with an 11 percent increase in equipment. Within the equipment category, motor vehicle purchases were especially strong, soaring 24 percent.

Recent changes in fixed capital investment in the nonfinancial corporate sector are compared to cash flow (undistributed profits plus allowances for depreciation) in a chart on the opposite page. In 1974, the recession caught corporations with heavy investment commitments, and fixed investment exceeded cash flow by $37 billion. In 1975 firms reduced their investment spending to a point where internal funds almost exactly matched investment outlays. In 1976, with renewed strong growth of final demand but still lagging investment, cash flow actually exceeded investment spending. The stronger investment performance in 1977 exceeded cash flow by about $8 billion. Cash flow and availability of external financing from credit markets have not been an impediment to rising investment outlays during the recovery period. The Administration tax program will increase cash flow and help insure that it does not become an impediment in future.

Short-term interest rates have increased by some 200 basis points over the last 9 months, but so far long-term rates have moved up only very slightly. Recent interest rate increases have not been such as to have a material effect on future investment outlays. However, the spreads between long-term and short-term rates have narrowed sufficiently so that further significant increases in short-term rates will be more quickly transmitted to capital markets.

In sum, 1978 prospects for investment growth, although probably stronger than the latest survey suggests, appear to fall short of the pace the Administration considers desirable over the next few years. To encourage added investment spending President Carter has proposd major tax reductions. Under the proposal, the corporate tax rate would be reduced October 1 from the current 48 percent to 45 percent. A further reduction to 44 percent would take effect January 1, 1980.

The investment tax credit would be made permanent at the present 10 percent rate and, retroactive to January 1, 1978, would be extended to structures as well as equipment. The credit would be allowed to offset up to 90 percent of tax liability, as compared to the present 50 percent limit on liability above $25,000.

Other business tax changes include three year phase-outs of the tax benefits from Domestic International Sales Corporations (DISC's) and of tax deferral on income of foreign subsidiaries of U.S. corporations and disallowance of some deductions for business entertainment expense.

On balance, however, the business tax changes should provide meaningful incentives for increased business investment. The proposed personal tax reductions, by helping to sustain a strong consumer sector, will work to assure business of growing final sales and thus also encourage increased investment.

Expected and Actual Changes in Plant and Equipment Expenditures

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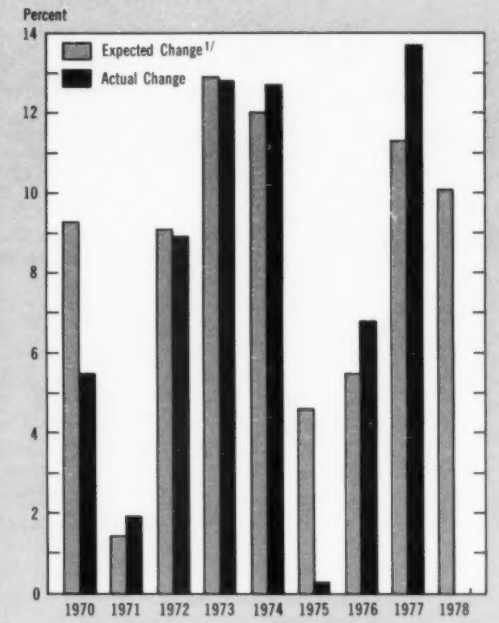

1/ Based on BEA surveys conducted during November-December and released each January.

Nonresidential Fixed Investment

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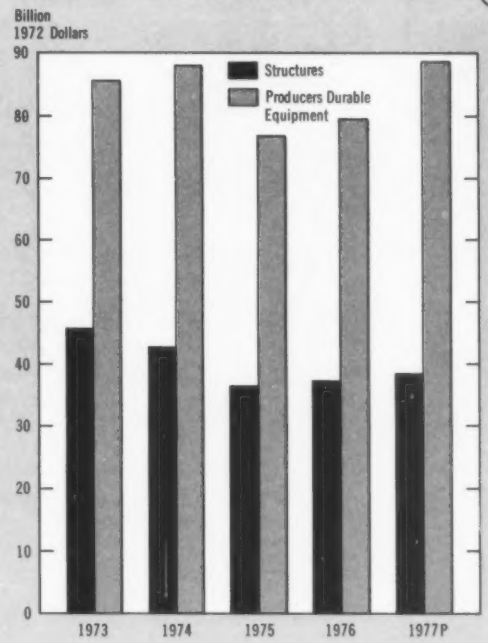

Cash Flow and Business Fixed Investment of Nonfinancial Corporations 2/

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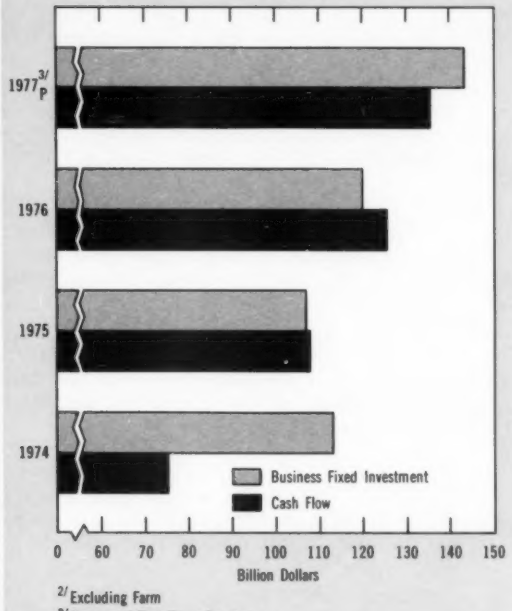

2/ Excluding Farm
3/ Average of First Three Quarters

Source: Federal Reserve Board

Manufacturing Capacity Utilization

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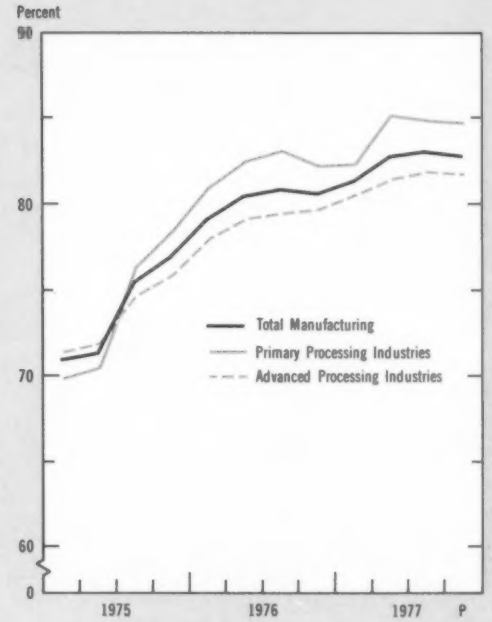
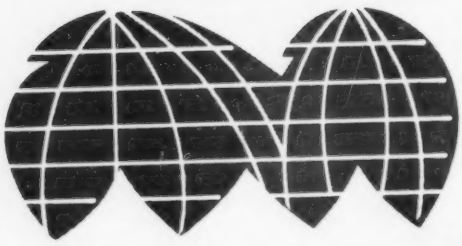


Source: Federal Reserve Board

P – Preliminary Estimate



U.S. Trade

Deficit Pattern to Continue;

In contrast to the enormous shifts which took place in each of the three preceding years, the U.S. merchandise trade balance is not expected to change greatly in 1978. Based on present prospects for the U.S. and foreign economies, another large trade deficit is likely this year. The disparity in the growth rates of exports and imports in 1977, which produced by far the largest trade deficit ever, should narrow considerably in the coming months.

Export growth in 1978 is expected to be somewhat more rapid than the 5 percent rise recorded last year, but a vigorous expansion is not likely, given prospects for generally modest economic growth abroad. At the same time, U.S. imports should decelerate considerably after expanding by more than 20 percent in each of the preceding two years.

The expected acceleration of U.S. growth and deceleration of import growth should result in stabilization of the deficit at approximately the level of last year. The deficit could increase or decrease moderately from the 1977 level, but no major shift is likely to occur in the size of the 1978 trade deficit. It should be noted, however, that two-way U.S. trade is expected to approach the $300 billion level this year, and only a small difference in prospective export and import growth rates could have a relatively large effect on the balance.

Export growth is expected to be somewhat more rapid than last year but a vigorous expansion is not likely.

The speedup anticipated for exports is based on expectations of continued economic growth in major industrial markets abroad, a further expansion in sales to the oil-exporting countries as a group, a faster overall rise in deliveries to the non-oil LDCs, and a reversal of last years' downturn in exports to the communist nations. A slight acceleration in economic activity is currently foreseen by some of the major U.S. industrial trading partners, but slowdowns are forecast for others. Nevertheless, U.S. exports to these countries should benefit from steps being taken to stimulate economic growth and, in the case of Japan, to reduce its large current account surplus. In addition, sales to the industrialized countries will be strengthened by some increases in investment spending which will lift the key capital goods component of U.S. exports. Moreover, the reduction in the cost of U.S. goods stemming from the large depreciation of the dollar against several key currencies in recent months is likely to raise foreign demand for certain products in the year ahead.

Deliveries to the oil-exporting developing countries, whose earnings remain large despite the deferral of a price increase by OPEC members, are expected to continue to expand. Prospects for a pickup in sales to several major developing countries are enhanced by continued improvement in their balance of payments positions. In part, that development resulted from higher prices last year for basic commodities such as coffee, as well as from strong growth in exports of manufactures to this country. U.S. competitiveness in LDC markets should be increased by the dollar's decline against the currencies of other major suppliers. The rebound projected in sales to the communist areas is predicated mainly on higher grain sales to the Soviet Union and Eastern Europe as a result of their smaller-than-expected harvests. These shipments will partly offset a probable drop in the value of farm exports to most other areas, reflecting generally lower average prices.

Most forecasts of the U.S. economy in 1978 indicate that the expansion in business activity will be only slightly smaller than last year. Imports, however, are projected to grow at a substantially reduced pace compared to the 1977 rise which was more vigorous than expected. Among the economic factors pointing to this outlook are an expected slower growth of disposable personal income and consumer spending, a likely leveling off, or slight decline, in housing starts, and a rate of inventory accumulation more in line with sales. In addition, certain major import commodities such as petroleum, coffee, and steel, which expanded by unusually large amounts in 1977, are likely to contribute little, if at all, to import growth. Reflecting the sharp decline in the value of the U.S. dollar last year, goods from certain foreign suppliers will be more costly in 1978 which also may restrain import demand.

Given the changes indicated above, the U.S. surplus on trade in manufactured goods is expected to increase in the coming months after sharp reductions in 1975-76.

Central to the export rise in 1978 will be the growth in sales of machinery. Some types of equipment exports should rise substantially in value, but others will grow slowly since many foreign industries are operating well below capacity. Exports of computers and parts will again lead the advance in sales. Foreign demand for the new minicomputers and peripheral equipment is expected to grow and more parts will be shipped to U.S. plants abroad for assembly. Deliveries of cooling and refrigeration equipment climbed strongly last year. They are likely to record another sizable increase, with Middle East countries accounting for a large portion of the advance. Following a sharp decline last year which reflected a falloff in construction of offshore drilling facilities abroad, exports of well-drilling machinery will increase in 1978. Shipments of electronics components should also rise as companies shift more production overseas.

Sales of construction equipment will be sluggish because, in addition to continued slow economic recovery abroad, competition is increasing from European and Japanese companies. Farm income in Canada,

Forecast 1978

$300 Billion Export-Import Total Likely

the largest market for U.S. agricultural machinery, fell last year, and these exports will therefore probably remain level.

Chemical exports should continue to advance. The outlook depends to some extent on U.S. energy policy decisions which will determine prices of oil and natural gas inputs, and thereby affect the relative competitive position of U.S. chemicals. Foreign demand for steel is expected to remain depressed but, because prices will average somewhat higher, the export value is likely to rise. Coal shipments should increase, but only slightly, as little change is forecast in foreign steel production, the major determinate of demand from abroad. Prices are likely to rise following settlement of the coal strike.

The value of automotive exports can be expected to increase moderately again because, although shipments of vehicles and parts to U.S. subsidiaries in Canada may not rise in volume from the relatively high levels of last year, prices will increase. A substantial expansion is projected in sales of aircraft following two years of sluggish exports.

The forecast for a drop in the value of agricultural sales abroad stems from the expectation that prices for farm exports will average lower in 1978 than last year. Relatively higher levels of world agricultural output in the past two years continue to exert downward pressure on unit values. In quantity terms, however, U.S. sales abroad are likely to increase because of a sharp rise in deliveries of wheat and corn to the USSR. In 1977, Soviet grain production declined substantially, leading to greatly expanded import requirements.

The considerable slowdown in import growth expected in 1978 will, in large part, be caused by a leveling in purchases of petroleum. After advancing rapidly in quantity and value in the two preceding years, these imports are not likely to increase significantly. Requirements for foreign oil will be reduced because domestic production will be augmented by increased supplies from Alaska, while oil prices will remain fairly stable as a result of the OPEC price freeze. A slowdown in the rate of inventory accumulation, or possibly even an inventory decrease, will also dampen petroleum imports, although this shift could be largely offset by government purchases for the strategic petroleum reserve. Unless the growth in demand for oil is curtailed, the expected leveling in oil imports this year, however, will only be temporary. Natural gas imports will advance considerably in value as a result of the recently negotiated increase in supplies from Canada. Large-scale receipts of liquefied natural gas from Algeria, which will begin early this year, will also raise the total.

Imports of other industrial supplies are not expected to expand as fast as in 1977 because U.S. industrial production will increase more slowly and residential construction may well level off or decline slightly. After rising dramatically last year, purchases of steel from abroad should decline in volume, in part as a result of measures such as the recently devised reference pricing system.

Lumber imports could be depressed in quantity, and possibly in price as well, by a slowdown in single-family housing starts. Chemical imports, however, will continue to expand in value, led by further growth in demand for the basic organic chemicals used in the production of man-made fabrics, plastics, and insulation.

Purchases of consumer goods from abroad should also advance less rapidly in 1978, reflecting among other factors some deceleration in personal consumption expenditures. A further reduction in the growth of consumer electronics imports will result from weakening demand for CB radios and the effects of the 1977 orderly marketing agreement limiting color TV shipments from Japan. Continued though perhaps slower increases can be expected in imports of a variety of other consumer goods.

Receipts of cars and parts from Canada are projected to show little increase in volume because of the probable leveling in auto demand here. Imports from Japan and Western Europe, however, are likely to rise, largely to rebuild inventories depleted by record sales last year. Also, values will be boosted further by the sharp appreciation of the currencies of Japan and Germany against the dollar.

Imports of capital goods will also probably advance at a somewhat slower pace, following more closely the general rate of growth in capital expenditures. Machinery imports should increase by less than the 20 percent expansion recorded last year but with considerable variation among individual categories. Only modest further growth is expected in truck imports, as sales flatten out from record 1977 levels.

Little, if any, further growth is likely in imports of food and beverages. Coffee purchases, after rising sharply in value over the past two years because of soaring prices, will not expand much since lower prices should offset an expected rise in volume. Sugar imports, in contrast, should be somewhat higher in price as a result of the new International Sugar Agreement, but down in volume because of large U.S. stocks. As in 1977, increases in the value of other food imports will largely reflect high prices.

The disparity in the growth rates of exports and imports in 1977 should narrow markedly in the coming months.

This forecast of U.S. foreign trade in 1978 was prepared in the Commerce Department's Office of International Economic Research by Kent Barker and Thomas Sobotta.

CANADA

Slow Recovery Resumes; Provincial Economies Vary

The Canadian economy is expected to improve at a moderate pace in 1978. Progress, however, may not be sufficient to counterbalance various negative factors and to boost business confidence to pre-recession levels, adds Kenneth Fernandez of the Bureau of Export Development.

The government is likely to continue to practice a policy of fiscal restraint, holding down government expenditures, which are often a catalyst in the resurgence of an economy, in view of its continuing concern with inflation and the need to remain competitive in domestic and foreign markets. A high degree of idle capacity in industry—about 15 percent, an unemployment rate exceeding 8 percent, and an anticipated increase in private capital investment in real terms of only 3 percent in 1978 have dampened the economic outlook for the coming year.

The depreciation of the Canadian dollar by 13 percent in the last year will make imports into Canada more expensive and will improve opportunities for Canadian exports. This shift in the exchange rate, however, has not restored the competitiveness of Canadian manufacturers as a whole and no significant change is anticipated in the recent trend in U.S./Canadian trade patterns.

United States trade with Canada in 1978 is expected to continue to conform to the pattern followed during 1977. Canadian imports during the period January-October 1977 were up 13 percent over 1977, to $33.1 billion. Imports from the United States were up 16.2 percent to $23.3 billion, accounting for 70 percent of total imports. During the same nine-month period total Canadian exports were up 15.4 percent to $34.4 billion. Exports to the United States of $24 billion, up 18.8 percent, accounted for 69.5 percent of the total.

Forecasts for annual growth in gross national expenditure in 1978 in real terms average 4.4 percent, as reported in the *Canadian Business Review—Autumn 1977*. The consumer price index is expected to rise 6.9 percent, unemployment to fade slightly to 7.9 percent from 8.1 percent in 1977, and corporate profits to gain, going from 10 percent to 12.9 percent.

There are, however, several imponderables which could have a decided effect on the short-term progress of the Canadian economy. The presence of a separatist government in the Province of Quebec has had an unsettling influence. The reaction of labor and business to the phasing out of the Anti-Inflation Program in April 1978 is expected to be muted; however, a number of labor contracts include provisions for renegotiation upon the end of controls. Another factor to be considered is the federal elections that will be held this year.

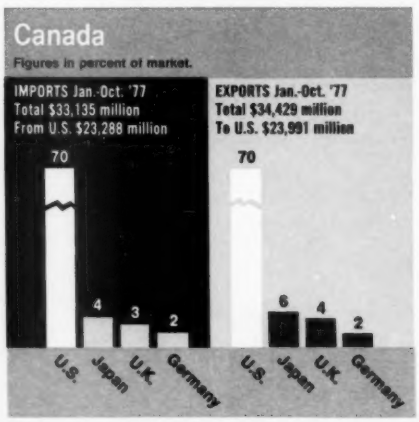
The government has, so far, followed a rather conservative economic/monetary policy in spite of a persistently high rate of unemployment, counting inflation as the number one problem, but in an election year this could change. Finally, and perhaps most important, much will depend on what happens in the U.S. economy, since Canada benefits through sustained U.S. demand for its products.

Canada's long-term competitive position will be dependent on whether unit labor costs keep improving as wage/price controls are phased out. The classic pattern has been for Canadian manufacturing productivity and wages to lag about 20 percent behind the United States. Although the productivity gap has narrowed somewhat, the wage gap has been reversed. An acute concern with this pattern has been a limiting factor in Canadian Government efforts to stimulate the economy, as it has been realized that the country's competitive stance vis-a-vis the U.S. manufacturing sector is a key element in the successful expansion of this sector in Canada. Prior to controls, wages in Canada were rising at an annual rate of 20 percent. This rate has subsided to 8.3 percent, but this has only maintained the status quo and has done nothing to improve Canada's competitive status. Although the decline of the Canadian dollar by over 10 percent in 1977 has improved the import/export situation, it is clear that the size of wage demands in 1978 will be crucial.

Outlook in the provinces

The outlook in 1978 for economic growth and market development varies considerably among the provinces.

Alberta is the bright spot. Gross provincial product is expected to rise about 6.5 percent in real terms, while the unemployment rate will remain at a little over half the national average. Agriculture remains weak, and tourism is off; but oil and gas development, and the anticipation of further development of the tar sands and a trans-Canada oil pipeline, will spark activity through 1978. Alberta is investing its oil money in competitive secondary industries. The best commercial potential will be in construction and transportation equipment, pipeline materials, gas processing, metal fabricating and drilling equipment and technical, management and engineering services.



In **British Columbia,** oil and natural gas are expected to give the economy a boost, especially the Alcan pipeline as it crosses B.C. Equipment related to gas exploration and development should continue to be in strong demand and that used in the lumber industry should pick up as the year progresses.

Ontario's gross provincial product should rise between 2 and 2.5 percent in real terms and there will be few bright spots in the provincial economy. Unemployment is expected to remain over 7 percent. Retail sales are not expected to grow by more than 3 percent in real terms. The market for electronic components, construction materials and supplies, and builders hardware is off. Prospects for energy conservation equipment and process control instrumentation, however, are improving.

Forecasts for 1978 **Quebec** gross provincial product vary from 2 to 4.5 percent in real growth. Unemployment will remain well above the national average at 12 to 13 percent. Private investment is weak and the flight of corporate offices following the election of a separatist provincial government has continued to hinder an inherently weak economy. Quebec's building program is one bright spot. Solar heating devices and other energy related equipment and process control and security equipment should find a good market in 1978.

In the **Maritimes** real gross regional product may rise by as much as 3.5 percent. Unemployment will range from 10 to 16 percent in various regions. Fisheries are benefiting from the new 200-mile offshore limit and coal mines from renewed demand. Fishing and coal mining equipment markets should improve. Cost reducing hotel/motel catering supplies and equipment for the logging and lumber industry should also strengthen.

In **Manitoba** the mining and agricultural sectors, which account for 97 percent of the province's primary production, are reeling from depressed prices and the outlook for 1978 is not sanguine. Consumer goods and farm machinery sales will suffer as will mining equipment. Food processing equipment may pick up as the province attempts to develop this sector to reduce unemployment.

Saskatchewan is also suffering from the effects of low prices for its agricultural products. Activity in the energy and mining sectors, however, should provide some marketing opportunities.

U.S. EXPORTS TO LATIN AMERICA EXPECTED TO IMPROVE MODERATELY

Venezuela Becomes Second Largest Market

U.S. sales to Latin America in 1978 should improve moderately over the modest 6 percent increase registered in 1977, according to Thomas K. Brewer of the Bureau of Export Development. Total U.S. exports to the area in 1977 were estimated at $19 billion as compared to $17 billion in 1976.

Central America and the Andean countries led the area in expanded purchases of U.S. goods in 1977 with increases of 23 and 22 percent, respectively. U.S. sales to Argentina showed the second largest growth rate for an individual country, 50 percent. Sales to Bolivia increased 66 percent. Other countries registering especially strong increases included Honduras, 48 percent; El Salvador, 40; Nicaragua, 36; Haiti and Ecuador, 33; Costa Rica, 32; and Venezuela, 18.

Declines in the sale of U.S. goods to the two largest traditional markets, Brazil and Mexico, offset the substantial gains in other smaller markets. Sales to Mexico dropped an estimated 7.5 percent to some $4.6 billion; sales to Brazil fell an estimated 13 percent to about $2.4 billion. In both countries, 1978 should be a year of improved economic activity and as a result, improved markets for the U.S. exporter—although Mexico may lead Brazil in more rapid recovery.

The Mexican peso achieved a high level of stability in the last several months and Mexico has again entered the international money markets. Industrial production should improve and both public and private sector investment should increase.

Brazil's economic policies in 1978 will be similar to those followed in 1977—moderate economic growth, reduced inflation, and a surplus in the trade account. Unless U.S. exporters can capture a larger share of the Brazilian market, U.S. exports may not increase substantially this year.

Venezuela is the glamor market in Latin America. U.S. sales are estimated to have topped $3 billion in 1977, making Venezuela the second largest Latin American market. Venezuela is moving forward with its ambitious development plans financed by petroleum revenues and borrowings on the international money markets. Venezuela led the area in such borrowings, which were secured with ease and at extremely advantageous interest rates. Imports soared so rapidly that for the first time the Government is talking about selected import controls, such as the recent prohibition on imports of all automobiles and trucks.

Chile is one of the freest markets in Latin America with a minimum of import restrictions and with import duties at 10 percent or to be scaled down to 10 percent by June 1979. Chile has been successful in meeting its international obligations, which has led to the reopening of the country's ability to secure loans on the international money markets.

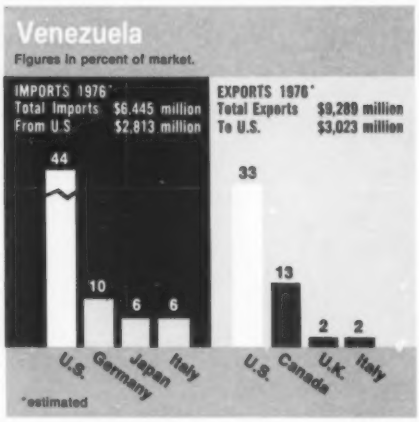
The only country in the Andean area showing a severe decline in imports was Peru, where U.S. sales fell 10 percent. Stringent austerity will continue to be necessary in 1978 if foreign debt servicing obligations are to be met.

The five Central American countries entered 1978 with healthy balance of payments positions, improved international reserves and strong economic growth. As a combined market, U.S. sales reached an estimated $1.8 billion in 1977 and should surpass $2 billion in 1978. The depressed Panamanian economy should improve modestly in 1978.

Argentina liberalized imports in 1977 and reduced import duties. The strong financial position and improved foreign investment climate have led private and foreign banks to liberalize their lending activities in support of U.S. exports.

U.S. exports to the Caribbean increased 8 percent in 1977 with sales to Haiti, the Netherlands Antilles and the Bahamas leading all other areas. In 1978, the Dominican Republic and Trinidad and Tobago offer increased marketing opportunities.

Major U.S. trade exhibitions are scheduled at the U.S. Trade Centers in Mexico City and Sao Paulo and in the Caracas Trade Exhibition Facility in 1978. Trade missions, seminar/missions, and catalog shows will cover these and many of the smaller but growing markets.



ANCOM

Andean Markets To Expand By 20 Percent This Year

The Andean Common Market (ANCOM) and Chile registered greater than expected import growth in 1977 as total imports increased an estimated 22.2 percent to $14.3 billion, according to Herbert A. Lindow of the Bureau of Export Development. U.S. exports to these areas rose sharply by 31 percent to an estimated $6.5 billion. For 1978, it is expected that these markets will grow by an average of 20 percent in terms of current dollars, with good growth expected in all markets except financially troubled Peru.

ANCOM members signed the critically important Automotive Vehicle Sectoral Development Program in September 1977, giving the ANCOM a new lease on life after prolonged delays and intense negotiations over the types of vehicles to be produced by individual member countries. The complex program—to be implemented in stages—is to be largely completed by the end of 1983 when the ANCOM nations are to be producing four types of passenger cars, six categories of trucks, and a jeep type vehicle.

Bolivia. Bolivia completed its sixth consecutive year of stable upward growth in 1977 and all indicators point to another solid year of economic expansion in 1978. U.S. exports to Bolivia grew 66 percent in 1977 to about $215 million and the market opportunities should be even better next year.

Inflation in 1977 was held to 15 percent. Net foreign exchange reserves were at a record high of $212 million. The government attracted new foreign loans amounting to about $400 million and issued a $15 million bond issue. Export growth was probably sufficiently strong to maintain the debt service ratio at the 20 percent level. GDP grew 5 percent and government predictions of a 7 percent GDP growth rate may be attainable in 1978. Sales opportunities are excellent in the mining and mineral processing industries, in petroleum extraction and refining, petrochemicals, road and airport construction, railroad rehabilitation and in agricultural machinery and food processing equipment. In the social sector, investments in hospitals, medical equipment, housing, schools and educational materials present new opportunities.

The public sector purchases about 70 percent of all imported goods and services, and all companies require a Bolivian agent to bid on public tenders.

Chile. The Chilean market is open for imports. Import restrictions are at a minimum and import duties on capital goods not produced in Chile are now only 10 percent. Import duties on other goods are

to be scaled down from their pre-Dec. 5 levels to 10 percent by June 1979. Exceptions include passenger vehicles and trucks which will continue to bear high duties.

Chilean import registrations rose from an estimated $1.593 billion in 1976 to an estimated $2.221 billion in 1977. Real growth is estimated at about 8 percent in 1977 and near 7 percent this year. Much depends on Chile's ability to attract foreign capital and credits. During 1977 there were clear indications of interest in significant investments by foreign mining and oil companies that are currently concentrating their attention on exploratory work.

The Chilean market ranges from capital to consumer goods. Major projects include hydroelectric power development, modernization of pulp and paper facilities, improvements in copper mining facilities and, if new investment contracts are signed, a significant expansion of mining machinery and equipment needs, machinery and equipment required for petroleum exploratory work and water supply systems.

The U.S. Embassy and the U.S. Chamber of Commerce in Santiago are organizing an exhibit for the Santiago International Trade Fair around the end of October. For more information, contact the U.S. Embassy, 1343 Agustinas, Santiago.

Colombia. U.S. exports to Colombia were up 15 percent to $780 million in 1977 and there is every indication that the Colombian market will remain strong in 1978. Major investments will be made over the next several years in hydro-electricity, petrochemicals, coal and petroleum exploration. Strong markets exist for agricultural commodities, agricultural and textile machinery and equipment for the telecommunications, health care, printing and graphic arts industries.

Colombia enjoyed record high international reserves of about $2 billion at year-end and a GDP growth rate of 6 to 7 percent. However, year-end monetary expansion and increased imports of agricultural products caused prices to rise, resulting in an inflation rate of 29 percent. In 1978 the inflation rate may decline to around 20 percent due to lower world coffee prices and an extraordinary growth of imports.

Industry, construction and commerce will lead the economy in 1978 and U.S. companies may wish to take advantage of the positive market conditions by exhibiting in the U.S. pavilion at the July Bogota International Fair.

Ecuador. Ecuador experienced an import boom in 1977 as registrations soared by 45.3 percent to an estimated $1.44 billion. U.S. exports rose by 33 percent to an estimated $544 million. Ecuador thus has become the third largest market of the six Andean nations. In part, the upsurge is attributable to the ending of the ban on automobile imports and to the easing of some import curbs. The general acceleration of economic activities should further import growth in 1978, although at a more moderate rate.

In early December the Central Bank announced a trade balance surplus of $70 million for 1977. The balance of payments situation is relatively stable and Ecuador is in a good position to receive foreign loans. The debt service ratio as of early 1977 was only 7 percent.

A number of economic development projects costing $4.3 billion are to be implemented during 1977-81, including: new airports for Quito and Guayaquil, a petrochemical complex, a fishing complex, automotive vehicle production, irrigation projects, an integrated steel facility, hospitals and health care clinics, and a variety of agricultural projects. U.S. suppliers are required to have an Ecuadorean representative to bid on these projects.

Peru. U.S. exports to Peru declined to an estimated $485 million in 1977, down from $573 million in 1976. Meanwhile, total imports remained practically unchanged at around $2.1 billion. For 1978 total imports are likely to be lower, although non-oil imports may increase.

The Peruvian economy is going through a period of stringent austerity. Although there has been a gradual improvement in the balance of payments, the net international reserve position remains strongly negative at a time when the foreign debt servicing burden is substantial and the outlook for additional financial assistance from abroad unclear.

Venezuela. Venezuelan imports continued to grow in 1977, the total approaching an estimated $8 billion, up almost 30 percent over 1976.

Imports remain a major factor in the country's ambitious development plans. Some imports are a result of infrastructure bottlenecks, which have created temporary shortages in local productive sectors. Venezuela has approached a level of import dependence as high as 20 percent for foodstuffs, making revitalization of the agricultural sector one of the highest government priorities. Refurbishing of the petroleum industry, at a cost of $10 billion, and expansion of the iron, steel, coal, aluminum and hydro-electric facilities will require continued massive investment in the importation of capital equipment.

U.S. exports should reach $3.1 billion for 1977, an increase of about 18.4 percent. The market is especially lucrative for agricultural, irrigation, and construction equipment; medical equipment; education aids, and pollution control equipment.

For 1978, the Commerce Department is planning a full range of exhibitions in Caracas including the following trade fairs: Electric energy, April 3-8; luxury consumer goods, May 15-20; printing and graphic arts, June 26-July 1; plastics/rubber production machinery, Sept. 4-9.

CARIBBEAN

U.S. Exports To Region Are Somewhat Improved

U.S. exports to the Caribbean area are estimated to have increased last year by about 8 percent over 1976. This increase probably reflected the waning of the recession, which generated somewhat increased tourist activity, a new emphasis on major projects, and a slightly more optimistic view in the business communities, according to Frederic G. Kayser of the Bureau of Export Development. The two exceptions were Jamaica, whose economy remains in serious condition and whose imports are severely restricted, and the Dominican Republic whose imports from the United States remained static, probably owing largely to the extremely low sugar prices experienced most of the year. Sales to the area should increase gradually in 1978 depending on implementation of planned major projects (Trinidad, Dominican Republic, Haiti, Jamaica) and the success U.S. bidders have in arranging competitive financing.

Dominican Republic. The Dominican Republic offers excellent sales and construction opportunities for U.S. firms and has one of the most stable and favorable investment climates in Latin America. After a slowdown in 1976, the economy regained some momentum and should see a 4 percent increase in real economic growth for 1977. Although sugar suffered poor prices, improved performance by other export items should help keep the balance of payments at or near equilibrium. The electrical power shortages of 1976 lessened this year and new or repaired output improved the picture for the short term. Generating capacity must still be increased considerably to sustain longer term economic expansion.

The continuing development of a tourist industry offers export opportunities for construction equipment and materials, with building planned or in progress for at least three areas of the country outside of Santo Domingo. This will also generate sales for refrigeration, food processing, restaurant and hotel equipment, plus air conditioning, water supply and sewage equipment, sports and leisure goods, and auxiliary electric generators. The construction activity provides opportunities in consulting and supervisory services—in feasibility studies, design and engineering. Other opportunities are agricultural and irrigation equipment, motor vehicles and gas and diesel generators, transformers, switching equipment, and health care equipment.

Trinidad and Tobago. Trinidad showed considerable movement in 1977 with the trans-island natural gas pipeline plus a new (and second) fertilizer plant com-

pleted, and work under way on the Caroni-Arima area water and sewerage project and on the new port and related infrastructure at Point Lisas. A third fertilizer plant is approved for construction. Work still has not begun on the new iron and steel mill.

Real economic growth of 5 percent in 1976 was carried over in 1977 and should continue in 1978. Low sugar prices have reduced export earnings, but strong performances in other agricultural products and from the petroleum and manufacturing sectors have kept the economy moving strongly. Inflation has moderated but remains a problem, as does unemployment which will not be sufficiently absorbed by Trinidad's petroleum funded industrialization program. This program presents opportunties for foreign investment on a joint venture basis, as additional capital and technology is required even with the country's large reserves. Opportunities also exist in smaller labor absorptive industries.

U.S. market share in non-petroleum products climbed from 38 percent in 1974 to 45 percent in 1976. This trend reversed in 1977 with lower U.S. agricultural prices and a shift from the United States to Canada for grain purchases. The trend should resume, and could go considerably higher, as imports for major investment projects are expected in 1978-79. U.S. agricultural products generally still find good markets here (over 10 percent of U.S. market share). The significant growth potential lies in capital goods, however.

Jamaica. The Jamaican economy, still in serious condition, has shown some improvement during 1977. Alumina and non-traditional exports are up, while stringent import and foreign exchange restrictions have narrowed the balance of payments deficit. U.S. market share and dollar value of exports continue to decline, but should improve in 1978 due to very substantial support from the IMF, World Bank and AID in agriculture, housing, electricity, and the sugar industry.

Bahamas. U.S. market share, excluding oil, should continue at around 72 percent in 1978 in this traditional consumer goods market. Exposure to Miami television and radio, reputation for high quality, short delivery time, low freight costs, ease of ordering and better financing make the United States the Bahamas' prime trading partner.

Opportunities exist for investment in dry dock facilities, tourist and resort developments in the Family Islands (other than Nassau and Grand Bahama).

Haiti. Haiti appears headed for a good coffee harvest which should help export earnings, although the economy was expected to grow as little in 1977 as it did in 1976. Other agriculture is turning more to local consumption (often mere subsistence) needs, less to export, and imported food needs are increasing. Other sales opportunities exist in equipment for labor intensive export oriented light industry.

Netherlands Antilles. The economic picture here is cloudy as the two large oil refineries were not producing anywhere near capacity in the early part of 1977 because of international oil market conditions, and industrial growth has been negative due in part to fairly high labor costs and rather rigid labor laws. Tourism has improved, however, and a really good showing, which is expected for 1977-78, could brighten the picture considerably. Most consumer goods should find a steady market.

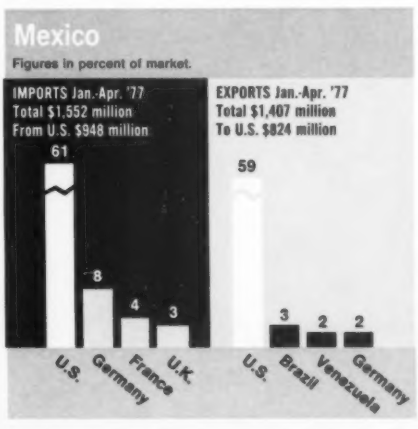
MEXICO

Business Activity Picks Up, Trade Picture Brightens

Mexico's business recovery is expected to continue in 1978. Growth in real terms is expected to be positive as industrial production picks up and investment by private sources and government rises, according to Frederick Tower of the Bureau of Export Development.

Purchases from abroad will reflect the pickup in activity by increases in requirements for industrial products and raw materials needed for the country's manufacturing sector. Exports of Mexican goods are expected to rise in value, led by petroleum, already the largest item by value sold abroad.

Investment by the private sector in Mexico is below levels of the last few years and there are indications that it may be some months before the previous pattern is reestablished. The effect on foreign investors of the government's initiatives in patent and trademark legislation and the redrafting of requirements for the automotive manufacturing industry have yet to be assessed. A series of rulings by the foreign investment commission on the application of the 1973 foreign investment law is generally taken as an indication that there will be no liberalization in the framework of regulations affecting non-Mexican capital.



The rate of price increases dropped as 1977 progressed and prospects are that 1978 will see a continuation of government efforts to stabilize prices. A measure of the success achieved in this endeavor may be seen in the removal of price controls from a wide range of consumer and producer goods, leaving only a short list of items currently under control. The peso has achieved a high level of stability during the last half of 1977 and indications are that this will continue during the present year.

Private sector imports in the first three quarters of 1977 were led by raw materials, components and machinery for industrial use. Largest single importer and leading public sector purchaser was the state owned petroleum company.

U.S. exporters will find excellent prospects for machinery and equipment for mining and construction, food processing and packaging, forestry and sawmills, textiles, as well as industrial and scientific laboratory instrumentation.

Exhibitions are scheduled during 1978 at the U.S. Trade Center in Mexico City in each of the themes mentioned, to enable alert U.S. firms to promote their sales in this market.

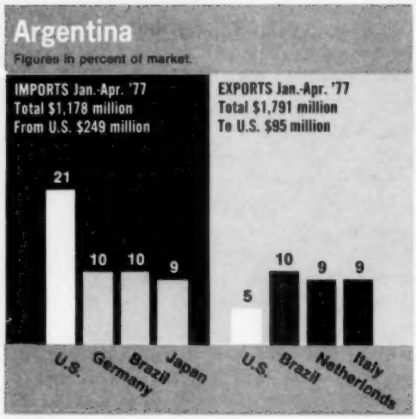
ARGENTINA

Industrial Production, Investor Confidence Improve

Overall, 1977 was a good year for Argentina, with a GDP growth of almost 5 percent, reports Elise Pinkow of the Bureau of Export Development. Nevertheless, the government's austere stabilization program had a dampening effect on economic activity at the end of the year.

Economic activity picked up steadily during the first nine months, with GDP growth reaching 7.9 percent in the third quarter and placing pressure on resources which led to an upturn in the rate of inflation. To prevent the economy from becoming overheated, the government adopted a tight monetary policy in August which successfully slowed economic activity in the fourth quarter to a level more compatible with the objectives of reducing inflation.

The economic slump is expected to continue through the first quarter of 1978, with the economy gaining strength during the remainder of the year. Much will depend on the Government's ability to withstand political pressures for a more stimulative fiscal-monetary policy and for substantial increases in real wages. If stabilization objectives are successfully



met, GDP growth for full-year 1978 will be around 4.5 percent.

Agriculture was the economic bright spot through 1977, showing a 34 percent growth over the previous year. Prospects for 1978 are not as favorable, due to low international prices and a six-month long drought in the West and Southwest.

Modest recovery in the manufacturing sector was evidenced by a 4.5 percent increase in 1977 production levels over those of 1976. Industrial activity began to drop in the fourth quarter of 1977 as a result of the restrictive monetary policy but is expected to pick up again by the second quarter of 1978.

Argentina in 1977 was one of the world's most rapidly growing markets for U.S. exports, with an estimated increase of 50 percent, totaling approximately $715 million. The outlook is good for continued expansion of U.S. exports to Argentina in 1978 as the economy generates increased demand for imported products and in particular capital goods and raw materials. Favorable factors include a recent liberalization of imports, reduction of duties, and record reserves.

International lending institutions in 1977 approved $515 million in loans to Argentina to finance highway, industrial development, cellulose, gas pipeline, water supply, and petrochemical projects scheduled for implementation during 1978.

U.S. direct investment in Argentina totaled about $1.4 billion at year-end 1976, and continued to increase in 1977. Increased foreign investment ($250 million in 1977) reflected renewed confidence by foreign investors in the investment climate of Argentina. The government has publicly welcomed foreign investment, promulgated a series of new laws providing for more favorable treatment of foreign investment, and proceeded to settle virtually all foreign investment disputes inherited from the Peronist regime. Although terrorist activity continues, the security situation has improved to the point that some foreign companies are beginning to assign their own nationals to positions with their affiliates in Argentina.

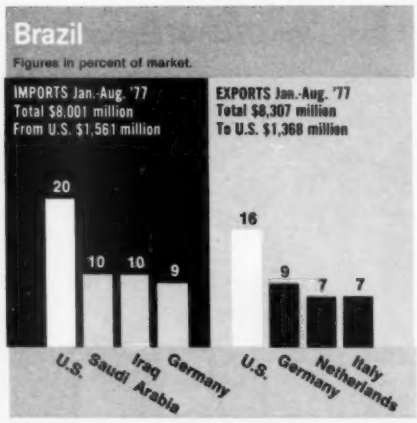
BRAZIL

Inflation and Current Account Deficit Decline

Brazilian Government economic policy in 1977 had two priorities: to reduce substantially the inflation rate, which reached 46 percent in 1976, and to improve the external payments situation by boosting exports and restraining imports. Year-end results indicate that significant progress has been made in both areas. Inflation accumulation should be under 40 percent. External payments for 1977 will show substantial improvement with an expected current account deficit of $4 billion compared to $6.11 billion in 1976, according to Richard Muenzer of the Bureau of Export Development. This improvement is due to the rough balance in Brazil's trade account, as a result of the substantial increase in coffee earnings, and continued restraint in import growth.

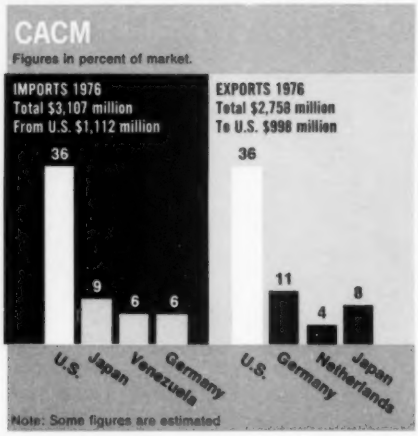
The Government's anti-inflation program has been accompanied by a reduction in economic growth. Real GDP growth in 1977 is expected to be about 6 percent, compared with 9.2 percent a year earlier. Following the high growth and profits in 1976, the policy of restraint has led to unease on the part of some economic sectors. There are indications of slack and unemployment in the important automobile and housing construction sectors. Powerful trade associations, particularly in the capital goods manufacturing sector, have expressed fears that the industry will experience increasing excess capacity during 1978. Some industry associations have taken an increasingly nationalistic stance and are demanding further protection from imports and restrictions against the entry of new foreign firms in the capital goods industry. Overall new U.S. investment continues apace, without any decrease in the proportion of Brazilian Government incentives received by U.S. companies.

Looking forward to 1978, government officials speak of consolidation of the results achieved this year. The basic objectives are: maintenance of a moderate economic growth rate (5-6 percent real GDP increase), continued reduction in the inflation rate, and achievement of a surplus in the trade account. Economic policies will be similar to this year's monetary and fiscal restraint and careful control of wages and prices, with inflationary implications being the foremost policy concern. Strict import restrictions are also expected to continue. The government's anti-inflation measures, including the cutback in spending for major projects, together with continuation of the import substitution program, have held imports during 1977 to the 1976 level. The U.S. share of the $12.4 billion import market in 1977 is estimated at 19.5 percent, down 4 percent from 1976. The OPEC countries' share increased 2 percent. The U.S. decline was due in part to the general decrease in capital goods imports and in part to Brazil's lessened need for wheat imports.



Brazil's import substitution policy limits imports virtually to essential primary materials and to advanced types of machinery and equipment not produced in Brazil. In the latter category U.S. products are in strong competitive positions, as shown by the high growth rates of U.S. exports to Brazil of such items as machine tools, process control instrumentation, mining machinery, pumps, valves and compressors, thermal power equipment, and filtration and purification equipment. In addition, other high priority categories are avionics and aviation ground support equipment, plastics industry equipment and health care equipment. Exhibitions of many of these products are scheduled to be held in the new U.S. Trade Center in Sao Paulo—the next such event, in March, focusing on health care industries equipment.

Brazil's Industrial Development Council (CDI) approved U.S. investment proposals totaling 11.5 percent of all investments approved for the year. In spite of the current slowdown in the rate of economic growth, the long-term growth prospects for Brazil are promising enough that new foreign direct investment in 1977 totaled $1 billion —the same as in 1976. Although it appears that government policy is becoming increasingly selective with regard to granting incentives to foreign investments, attraction of foreign investment remains a basic policy. However, with inflation declining and the trade account roughly in balance, major investment projects that have been cut back, delayed or suspended (about $10 billion in programmed investments) will be reworked, with investment increase to begin in 1979. Highest investment priority will be given to the petroleum, petrochemical, electric power and agribusiness industries. U.S. export opportunities in these sectors should be excellent.



CENTRAL AMERICA

Region Continues To Attract U.S. Exporters, Investors

The Central American Common Market (CACM), comprised of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, will continue to be an attractive market for U.S. investors and exporters in 1978, Walter M. Bastian of the Bureau of Export Development reports. GDP growth rate in the region is expected to approach 6 percent. This goal is dependent upon the world prices for Central American commodities and private sector investment. Also important is the level of expenditure for manufactured goods imports, on which the region relies heavily.

Last year saw unprecedented receipts resulting from high coffee prices and good performances by other goods produced in the region which resulted in a healthy balance of payments picture and economic growth (6 percent in 1977). Failure to put these receipts into significant private sector investments could cloud the benefits otherwise received. However, improvement in foreign trade resulted in an estimated trade surplus approaching $400 million for the area. Additionally, international reserves are up and each country should close out the year with a balance of payments surplus.

As the international price of coffee drifts downward, the international prices of the other commodities raised in the area do not appear to be rising. World cotton production is expected to exceed consumption for 1977-78. Prospects are for a large world sugar crop in 1977-78, adding further to the build-up of stocks.

The governments in the region are moving forward with development plans calling for large public sector expenditures. Efforts are geared at achieving less dependency upon imported energy sources, improving communications and transportation facilities, diversifying agricultural production and improving health care.

CACM optimism over a new market treaty has dissipated. Hopes for a solution to the El Salvador-Honduras dispute, high early in the year, appear stalemated. Talk of a tariff reform should result in a new tariff system based on the Brussels Tariff Nomenclature.

The United States continues to be the leading supplier to the region accounting for about one-third of imports. Principal competition comes from Europe and Japan. Venezuela supplies petroleum. Though competition for the market is increasing, excellent sales opportunities exist for U.S. manufacturers of equipment for health care, food processing and packaging, building and construction, communications, transportation and energy. With increased competition for the market, successful sales often hinge on the aggressiveness of businessmen and on financing of purchases.

To aid U.S. suppliers in this market, the U.S. Department of Commerce is sponsoring the following catalog exhibitions: March, food processing and packaging equipment, in Guatemala, Honduras, and Nicaragua; April, health care industries and services, Panama, Costa Rica, and El Salvador; June, agricultural machinery and equipment, Guatemala, Honduras, and Nicaragua; and a seminar/mission, July, communications equipment and systems, El Salvador, Guatemala, and Costa Rica.

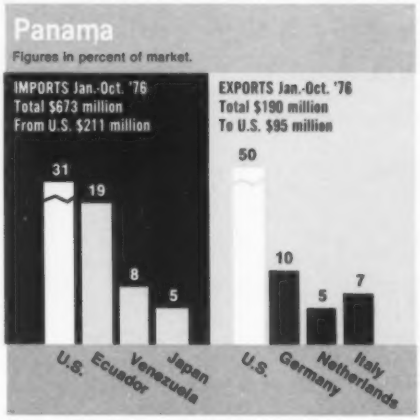
PANAMA

Economic Activity Seen Improving Moderately

Economic activity in Panama, depressed in 1977 as a result of the uncertainty over the new Canal treaties and public sector austerity, should rebound moderately in 1978, reports Walter M. Bastian of the Bureau of Export Development. New laws put into effect at the end of 1976 to stimulate private investment and to strengthen the government's financial position have increased revenues but failed to stimulate private investment. However, Panama continues to offer considerable potential for U.S. business in view of its billion-dollar plus market for imports and the government's ambitious Five-Year Development Plan.

The economy, which was practically at a standstill last year, is expected to achieve a 3 percent growth in GDP in 1978 (about $2 billion in 1977). This figure could increase, pending early ratification of the Panama Canal treaties. The financial package extended to Panama under the treaties calls for an increase in revenues to be paid to Panama from Canal operations and U.S. support for a five-year loan program.

Panama is still struggling to recover from the economic hardships of 1974 and 1975. Agriculture has been slow in coming around due to a drought in 1976. The outlook is good for 1978, however, and the government has made this sector a development priority.



Construction remains in a depressed state. The number of construction permits issued remains down. Efforts to attract new foreign investment to the Republic and to the Colon Free Zone have not yielded the desired results. There appears to be hesitancy on the part of foreign investors to invest until the new pacts are signed.

Inflation, which had reached a high of 25 percent in 1974, seems to be under control as the government's anti-inflation campaign takes hold.

Private sector investment remains sluggish and the government, as it has in the last few years, is trying to pick up the slack. Public sector investments include projects in fishing, tourism, energy and transportation.

Texasgulf is proceeding on the large $800 million Cerro Colorado Copper Project with the feasibility study due to be completed this year. The project is expected to be on stream in the early 1980s.

Panama experienced a large trade deficit last year which was offset by earnings from its export services. While the U.S. accounts for approximately one-third of Panama's imports, other leading suppliers include Ecuador, Venezuela (petroleum) and Japan.

Despite Panama's sluggish economy, the potential for U.S. business continues to be good as a result of the country's heavy reliance on imported consumer and capital goods. A promising outlet for U.S. goods is through the Colon Free Trade Zone in Colon, whose volume of exports and imports in 1976 approached $1 billion.

Panama's $2.7 billion Five-Year National Development Plan offers opportunities for a wide range of U.S. products and related services in the development of such sectors as minerals, fishing, agro-industries, energy, tourism, transportation and low-cost housing.

SLOW GROWTH IN WESTERN EUROPE WILL LIMIT U.S. EXPORT EXPANSION

Economic Performance Sluggish In Most Countries

With another year of slow growth forecast for nearly all of the economies of Western Europe, U.S. exports are unlikely to expand rapidly in 1978, according to J. Robert Wilson of the Bureau of Export Development. In 1977, when U.S. exports to Western Europe reached an estimated total of over $33 billion, the rate of increase was 4 percent.

Recent economic performance in Europe has not inspired confidence in the business community. In most countries industrial production peaked early in 1977 and serious unemployment has persisted. The largest economy, that of Germany, failed to play the dynamic role that was expected to have ripple effects through Europe.

The sluggish economic performance had one bright spot—improved balance of payments situations in most of the European countries. Underutilization of production facilities meant reduced demand for imports of oil and raw materials. The improvement in Italy and the United Kingdom was particularly dramatic; both moved from large deficits in the current account to surpluses. It is anticipated that in 1978 they will join the group of countries enjoying fairly strong balance of payments positions: Germany, Switzerland, Belgium and the Netherlands. While nearly all of the other European countries are expected to continue to experience deficits in their current accounts, the general trend is toward stronger positions.

Accordingly, it should be possible to avoid the imposition of import restrictions for balance of payments reasons. The outlook for selective restrictions designed to alleviate unemployment and other problems in certain sectors is less sanguine. Some European trade barriers have already been erected against imports of steel, textiles and footwear and anti-dumping investigations are being intensified. So far, these restrictions have been directed mainly against imports from low-cost producers, particularly from the more advanced developing countries.

Currency changes during the past several months have altered the competitive position of U.S. exports in many European markets. The most dramatic have been the sharp appreciation of the German mark and the Swiss franc, which enhance the ability of U.S. exports to compete in those countries. On the other hand, many countries suffering from weak balance of payments positions saw fit to devalue their currencies. Spain devalued in mid-July. At the end of August all of the Nordic countries devalued, but by different amounts—Sweden by 10 percent, Denmark and Norway by 5, Finland by 3.1 and Iceland by 2.5. Late in September Turkey devalued by 9 percent against the dollar.

Some of these currency changes reflected differential rates of inflation. By and large, the U.S. performance on the inflation front compares favorably with the European record. For the year ending October 1977 consumer prices in the United States rose 6.5 percent; the average for Europe was 10.7 percent. Only three European countries were more successful than the United States in curbing inflation: Germany, Switzerland, and Austria.

Growth prospects for 1978 are generally regarded as only moderately encouraging. The Organization for Economic Cooperation and Development (OECD), in the December issue of its semi-annual *Economic Outlook*, forecasts a rise in the combined European GNP of only 2.5 percent in 1978, just a fraction better than the 2 percent growth estimated for 1977. Of the larger countries, only one is expected to step up its growth rate appreciably—the United Kingdom's GDP is forecast to rise 3 percent after no growth last year. This would be the fastest rate of growth achieved by the U.K. since 1973.

EEC growth prospects

The rate of growth of the nine-member European Economic Community (EEC) is expected to be slightly higher than that of Europe as a whole. The Commission of the European Communities, in its quarterly publication, *The Economic Situation in the Community*, published in late December, forecasts EEC growth at 3.3 percent. While this represents an improvement compared with the 2.3 percent rate expected for 1977, it falls short of the target range of 4-4.5 percent recently adopted as necessary to halt the rise in unemployment. Above-average growth rates are forecast for Ireland, the United Kingdom, France and Germany. The increase in the volume of imports of goods and services is estimated at 5.6 percent. The rate of inflation is expected to decelerate further from 9.6 percent in 1977 to 7.9 percent this year and continued improvement in the balance of payments is anticipated.

Necessarily, these forecasts are based on existing government policies. In order to combat unemployment, which is very severe among youth, the governments of some of the stronger countries are likely to take various fiscal measures that will gradually accelerate economic activity.

Last July the EEC completed its customs union as the three new members (the United Kingdom, Ireland and Denmark) made the final adjustments in their tariffs to conform with the common tariff of the original six members. In addition, the Six and the Three completed the elimination of duties on internal trade. At the same time duties on most industrial trade between the EEC and the seven European Free Trade Association (EFTA) countries (Sweden, Norway, Finland, Switzerland, Austria, Portugal and Iceland) were eliminated.

No further significant trade liberalization measures are planned for 1978. Although Greece, Spain and Portugal have applied for membership in the EEC, the processing of their applications is slow and it will be some years before trade liberalization resulting from membership will take place. The prospect of eventual membership, however, may well generate investment in these countries and otherwise contribute economic plusses.

The Greek economy has enjoyed steady growth of 5 to 6 percent for the past two years and prospects for 1978 remain bright. Last year, in order to support this vigorous economic activity, Greek imports rose 17 percent. Spain, on the other hand, continues to experience difficulty in getting its economy moving. Although Spain, like Greece, exhibited very rapid economic growth through the decade ending in 1974, it has subsequently suffered from low production and investment, high inflation and unemployment and serious trade and payments imbalances. There is some prospect for economic recovery by late 1978, particularly if inflation and the disequilibrium in the balance of payments are brought under control.

Except for Norway, the economic outlook for the Nordic countries is unusually bleak. To a considerable extent their problems are not of their own making, but are a reflection of the weak demand on the part of their trading partners. On the other hand, despite reduced economic activity, they continue to exhibit double-digit wage and price inflation. All of them are running deficits in the current account of their balance of payments; however, for Norway, financing the deficit is facilitated by its North Sea oil assets.

European affiliates of U.S. companies will continue to make a significant contribution to capital formation in many European countries. Capital expenditures by U.S. affiliates in Europe in 1978 are estimated at $14.4 billion, an increase of 7 percent over the level planned for 1977.

The range and variety of American exports to Western Europe is tremendous. Particularly promising opportunities exist for exports of machinery and equipment incorporating advanced technology. Exhibit facilities for American exporters are available at the U.S. Trade Centers in London, Paris, Milan and Stockholm. In Germany, the International Marketing Center in Cologne assists American exporters in participating in major trade fairs throughout Germany.

BELGIUM

Sluggish Economy Holds Sales Below Expectations

Currently, the economic situation in Belgium is very similar to that in neighboring countries, according to David K. Katz of the Bureau of Export Development. Growth in industrial output has come to a virtual standstill, unemployment is rising steadily, industrial investment has contracted, and private consumption has been expanding at a slower pace. Although U.S. exports to Belgium last year fell short of predicted levels, largely as a result of the sluggish Belgian economy, growth prospects this year are promising.

Government officials have revised downward their original estimate of 3.5 percent real GNP growth for 1977 to 2.5 percent. For 1978, the government is now aiming for a 3 percent growth rate, although current economic indicators suggest that results might again fall short. On the whole, industrial production has been slowing down since October 1976. The steel, textile, and construction industries have been particularly hard hit, with the only increases being in the metalworking and transportation sectors.

The inflation rate has steadily declined from the double-digit levels registered in 1974 and 1975, to 9 percent in 1976, and to a more respectable 6.5 percent in 1977. Although inflation remains one of the government's major preoccupations, this deceleration of price increases is one of the bright spots of recent Belgian economic performance. It has also had the positive effect of slowing wage increases.

The greatest single economic problem for Belgium remains unemployment. In mid-October, the number of unemployed represented 8 percent of the working population. The number of unemployed has increased 15 percent in the last year, and places Belgium's unemployment rate second only to Ireland in the EEC. In light of this, government/trade union relations can best be characterized as cautious cooperation.

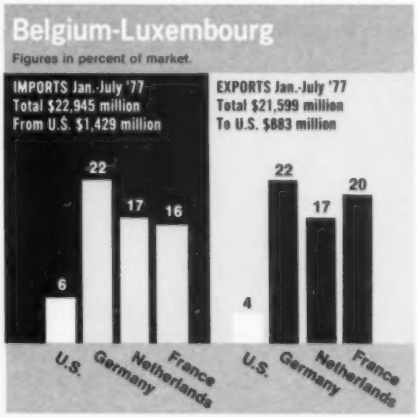
For the last two years, private industrial investment has been stagnant, and the situation is not expected to improve in 1978. There were acute declines in investment rates in 1977 and some sectors, including chemicals (−24.6 percent), metallurgy (−45 percent), and paper and printing (−18.5 percent). To stimulate investment, the Belgian Government plans to provide approximately $5 billion in tax relief measures to the private sector during 1978—representing a 20 percent increase over 1977. Special emphasis is being placed on labor-intensive sectors, including accelerated depreciation and amortization and elimination of the value added tax on labor-creating investments. To avoid feeding inflation, however, the increase in public investment expenditures and tax relief measures are to be balanced by increased direct and indirect taxation on consumers.

While there are good possibilities for improvement in the Belgian market performance in 1978, the pace will depend on growth elsewhere in the industrialized world. With the export-GNP ratio exceeding 50 percent, the major variable in this export-oriented economy is foreign demand. The Belgium and Luxembourg Economic Union (BLEU) continues to run an overall trade deficit ($1.3 billion in the first six months of 1977), but its balance of payments on current account should experience a surplus in 1977 after a deficit in 1976, its first in 8 years. The strength of the Belgian franc should continue to be a positive factor.

In 1978, sales of traditional U.S. exports to the BLEU—particularly raw and semi-processed goods along with high technology machinery—should continue strong and advance further as the economies improve. Especially lucrative opportunities exist for U.S. exporters of machinery (BLEU imports of motors, pumps, compressors, and engine and machine parts have increased 15 percent while electrical machinery is up 20 percent). Aviation and agricultural sales should increase substantially for U.S. suppliers. There is also a substantial market for high-technology pollution control equipment, with the government having increased its spending for environmental purposes ten-fold since 1972 ($635 million will be spent in 1978).

Belgian firms remain eager to acquire the newest U.S. technologies either by import or license. Automated, labor-saving devices of advanced design will be particularly well-received as management attempts to cope with steadily increasing labor costs.

In response to market opportunities, the U.S. Department of Commerce will be sponsoring a building equipment catalog show, Feb. 17-26; an industrial equipment, videotape catalog show, May 28-June 1; and an office equipment catalog show, Sept. 13-20. All will be in Brussels.



FRANCE

U.S. Exports Should Swell As Recovery Progresses

Prospects appear favorable for improvement in the French economy in coming months, reports Caratina L. Alston of the Bureau of Export Development. Leading economic indicators have been mixed, yet the general feeling among the business community is one of confidence. As optimism increases and the economic situation improves, U.S. exports should enjoy greater strength in the French market.

Recovery from the economic stagnation which has plagued France, along with much of the rest of Europe, is proceeding. Indeed, the projected (possibly somewhat optimistic) real growth in Gross Domestic Product for 1978 is 4.5 percent after a disappointing rise of under 3 percent in 1977. The estimate for business investment calls for a 3.7 percent increase. In addition, the French Government plans a variety of selective economic stimulus measures intended to sustain economic activity while restoring a greater degree of stability to the economy.

Continued inflation, which has marred the French economic picture in recent years, has been marked as one of the major targets of Prime Minister Barre's economic stabilization program. Among these measures are a real wage increase moratorium; price restraint agreements with industry; and a slowdown in money supply growth. The government has expressed hope that the inflation rate can be reduced from its present 9 percent level to 6.5 percent in 1978.

National elections are scheduled to take place in March. The uncertainty of the outcome has dampened private investment and partially accounts for the current slow rate of growth.

Unemployment grew throughout early 1977 to 5.4 percent in July, but by October the outlook had brightened, with the figure dropping to 5.0 percent. Unemployment might stabilize at its current level and even fall slightly as firms step up their recruiting. Still, the recovery in economic activity is not expected to be sufficient to produce a major improvement in the employment situation in 1978. The average industrial wage rose approximately 9.5 percent in 1977, down from a 13.2 percent rise in the preceding year.

Consumption is expected to grow by 4.0 percent in 1978, a slight increase over 1977.

Industrial production, which had fallen during the spring of 1977 by 2-3 percent, has started to expand again and should reach an annual growth rate of 3 percent by mid-1978.

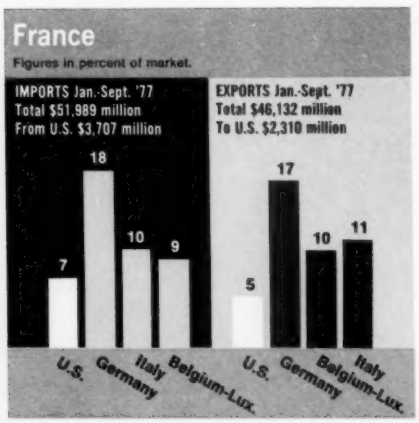
Direct U.S. investments are welcomed in most industrial sectors, particularly

when they provide the kind of technology, capital and marketing support likely to create substantial employment and net exports, and when they take into account the government's regional development considerations.

U.S. exports to France were $3.7 billion through September 1977, representing a 6.7 percent increase over the same period in the previous year and a 7 percent share of total French imports. French exports to the United States totaled $2.3 billion during the same period, representing a 7.8 percent increase over the prior year (5 percent share of total French exports), and a $1.4 billion balance of trade deficit vis-a-vis the United States. Total French imports and exports during the first nine months of 1977 increased over the previous year by approximately 9 percent, resulting in a total balance of trade deficit of $5.8 billion. The country's trade balance is expected to improve slowly, and to approach equilibrium late in 1978.

Currently, the potential export gains for certain U.S. equipment appear substantially above average, including computers and peripheral equipment, both large and mini computer systems; electronic components, especially active components; laboratory instrumentation; metalworking equipment; electronic industry production and test equipment; health care equipment; communications equipment and systems; building supplies, fixtures and equipment, especially renovating and energy conservation materials, and air-conditioning equipment; business equipment, including computer terminals, electronic accounting machines, electronic calculating equipment and microfilm equipment; and food processing and packaging equipment.

The U.S. Department of Commerce is sponsoring exhibitions at the U.S. Trade Center in Paris during the next few months in the following product areas: computers and related equipment; pollution control equipment and instrumentation; and security systems and related equipment.



GERMANY

Prospect Of Faster Growth Augurs Well For U.S. Sales

U.S. exports to Germany last year, through September, rose 10.5 percent, while U.S. imports from Germany rose 34.6 percent —resulting in a bilateral U.S. trade deficit of $123 million. A year earlier, the United States had a $788 million trade surplus. The uneven pace of economic recovery between the United States and some of its major trading partners, including Germany, has contributed to this development. Neither the depreciation of the dollar, nor the October longshoremen's strike, which affected imports more than exports, could prevent this reversal of a two-year trend of substantial surpluses in U.S. trade with Germany, V. Stanoyevitch of the Bureau of Export Development observes.

With the real GNP growth rate in Germany in 1977 estimated at slightly less than 3 percent, demand for imports was not as buoyant as in the preceeding year, when the GNP rose 5.5 percent and the U.S. trade surplus with Germany reached a record level of $1.3 billion. Our competitive position in the German market appears buttressed by rising production costs in Germany and by the external depreciation of the dollar in the past year, a development not likely to be reversed in the near future, considering U.S. dependence on foreign energy sources and the country's large trade deficits.

The more sanguine expectations for this year are predicated upon the resumption of a more buoyant rate of real economic growth, perhaps in the 3.5 to 4 percent range. Measures already taken by the Bonn Government to accelerate growth and, at the same time, keep a tight lid on inflationary pressures, have taken the form of moderate reductions in personal and business income taxes and a 10 percent increase in budgetary appropriations. The government has also taken vigorous steps to counter speculative activity on the exchange markets by lowering the discount rate from 3.5 to 3 percent and by increasing drastically, up to 100 percent, bank reserve requirements against foreign liabilities. The government has acted both in response to pressures from deficit countries to accelerate German imports and to reduce domestic unemployment. Even since the 1974-75 recession, the number of unemployed has hovered around 4 percent of all wage and salary earners, or about 1 million jobless—an unacceptably high level by German standards.

The U.S. export performance in spite of excess capacity, sluggish business investment, and weak consumer spending, is expected to improve this year, especially in those categories of industrial products which did well last year. In the first half of 1977, important gains were made by a broad range of U.S. manufactures; thus, German imports of finished manufactured goods from the United States rose 18 percent to almost $2 billion.

Specific product categories registering gains included power engines, machine tools, paper and printing machinery, textile and leather machinery and agricultural machinery. Sales of office machines also increased in value, but their share of the market declined imperceptibly. Sales of industrial chemicals also rose but, except for pharmaceuticals, there too the share of the German import market weakened somewhat. Gains by U.S. optical and precision instruments increased the previous year's sales by 26 percent and the U.S. share from 16.2 to 17.4 percent.

U.S. aircraft sales advanced 25 percent in value, but their market share declined from 36 percent to 31.4 percent, reflecting growing competition from domestic and EEC aircraft manufacturers. The modernization program of the German Lufthansa, which involves replacement of 11 old Boeing 727s and five 747s, should boost U.S. sales this year appreciably.

The extraordinarily successful participation by U.S. manufacturers of sports equipment and apparel at the Commerce-sponsored American exhibit at SPOGA in Cologne last September demonstrated anew the potential for expanding sales of consumer goods featured at that exhibit.

During calendar year 1978, as part of its program of assisting American firms in marketing their products in Germany, the U.S. International Marketing Center in Cologne (in operation since January 1977) will manage participations by American manufacturers and exporters in American exhibits at five major industrial trade fairs: Housewares Fair, Cologne, February; International Exhibition for Biochemical and Instrumental Analysis, Munich, April; International Security Exhibition, Essen, and International Trade Fair for Motor Vehicle Maintenance and Service Equipment, Frankfurt, September; and International Trade Fair for Electronic Components and Assemblies, Munich, November.

ITALY

U.S. Goods In Demand Despite Sluggish Economy

Austerity measures taken by the Italian Government in late 1976 and early 1977 to stabilize the economy have induced an industrial slowdown which, nevertheless, has not greatly affected U.S. exports to Italy. Although the U.S. share of total imports in 1977 will probably be less than the 1976 share of 7.9 percent, the value of U.S. exports should approach the $3.4 billion reached in 1976. In 1978, prospects for U.S. sales to the Italian market are mildly optimistic. If the government decides to stimulate the economy, prospects will be even brighter, John Priamou of the Bureau of Export Development points out.

Meanwhile, the stabilization program is producing the anticipated results. Restraining measures, such as domestic credit controls, increased rates on many public services, some indirect tax increases and stepped-up tax payment schedules, have reduced the growth in internal demand which in turn has helped to slow industrial production with a resultant increase in unemployment.

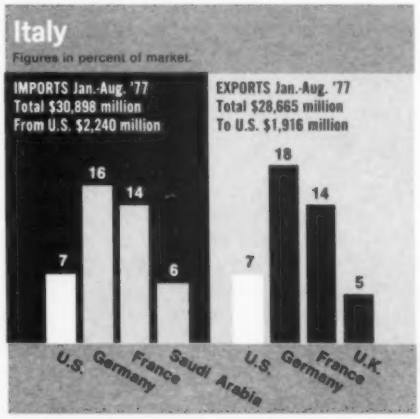
The stabilization program has also reduced the annual rate of inflation and barring a government reflationary program, the rate of inflation will continue to decrease throughout 1978 to about 13 percent. The real GNP growth rate in 1978 is forecast to be only slightly higher than the 2 percent reached in 1977. However, the industrial sector, which comprises 40 percent of the GNP, is expected to grow by 4 percent. A recent survey indicates that in the manufacturing sector, transport equipment, petroleum, coal products and synthetic fibers will have the strongest growth rate, while production in other sectors, mainly textiles, clothing, furniture and chemicals, will decline substantially. Overall, a large percentage of plant capacity remains unutilized with current plant utilization standing at approximately 72 percent. As a result, investment in 1977 showed a slow growth of about 4 percent, consisting mainly of replacements for old and outmoded equipment.

With investment in new plants stagnant and an increase in the number of new entrants into the labor market, unemployment rose sharply to 7.7 percent in 1977. It is expected that new job creation is not likely to keep pace with the growth of the work force and unemployment will remain a problem. A program to find jobs for young workers is not succeeding because employers fear union demands that employees, once hired, cannot be fired.

The general slowdown of internal demand has caused producers to turn to export markets for outlets for many products. Exports of goods and services went up 6 percent in 1977 despite the less than expected expansion of world markets. Imports affected both by the slow growth of industrial production and the liquidation of accumulated inventories, are showing a smaller increase compared to 1976. As a result, Italy's trade balance improved significantly in 1977. The trade deficit during the first eight months was only half of the $4 billion deficit of a year ago. Imports in 1978 will grow faster as most inventories will have been liquidated during 1977.

U.S. exports to Italy in 1977 fared well despite the overall slowdown of the economy. In 1978, and beyond, the best sales prospects are in high technology products, particularly those which can help raise the level of industrial productivity and reduce labor costs. Specifically, excellent export opportunities exist in computers and peripherals, a market which continues to boom. The fastest growth of about 30 percent is expected in special purpose minicomputers. Peripherals and memory storage systems should also experience rapid sales growth. Telecommunications equipment represents a substantial potential market, with best prospects in electronic telephone switching systems, data communication devices, microwave and equipment for telecommunications field testing. There is a large and growing market for electronic industry production and testing equipment, where the U.S. share is expected to grow. Production process control instrumentation offers good potential, especially for the chemical, pharmaceutical, food packaging and processing and steel industries, as well as for potable water supply networks and pollution control of waste water for municipalities and industries. Commercial and industrial security equipment will continue to grow in an increasingly security-conscious Italy. Sales prospects for avionics and ground support equipment are also promising.

The United States Department of Commerce will assist U.S. exporters by sponsoring exhibitions in printing and graphic arts equipment, EDP, and metal finishing and surface treatment equipment and supplies to be held in the months of March, May and June, respectively.



NETHERLANDS

Expectations Not Realized, But Imports Remain Strong

Expectations in 1977 for continued recovery of the Dutch economy were not realized, as unemployment and inflation took a slight upward turn. However, industrial production has risen slightly since 1976 and reflationary government programs are likely to stimulate business investment and attack unemployment problems. Dutch exports have continued to rise, and prospects remain strong for imports from the United States during 1978, according to Caratina L. Alston of the Bureau of Export Development.

GNP in constant prices rose by 3 percent in 1977, and a similar rate of increase is projected for 1978. Growth expectations are based on a projected 6 percent increase in world trade, with particular emphasis on 7.5 percent growth in foreign demand for Dutch goods. A 3 percent upturn in corporate investment is expected for 1978.

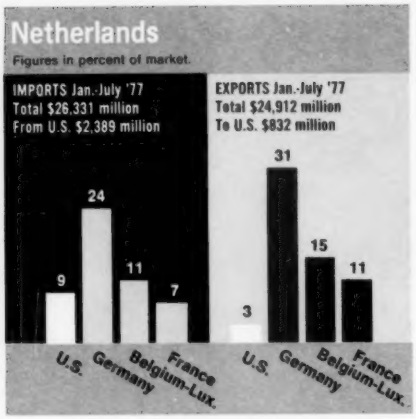
Private consumption is expected to rise by some 1.5 percent, average annual unemployment should increase from 215,000 in 1977 to 255,000 in 1978, leaving the average unemployment rate hovering around 5.5 percent, and, if wage increases can generally be kept to 7.5 percent, the inflation rate should decrease from 7 to 6 percent.

Public policy, including record government expenditures of around $40 billion, will be directed against inflation and unemployment. A portion of this money will be spent to improve business investments through wage subsidies and a new definition of profits.

Dutch government policies were limited during the second half of 1977, since the old government was acting in a caretaker capacity. Business confidence is now rather low because it is believed that the new coalition government of Christian Democrats and liberals will have difficulty mustering a majority in support of key legislation. Although the coalition has 77 seats in the 150-member Parliament, seven left-wing Christian Democrats have refused to go along with the government's political program.

Employers feel that the new government will not have the muscle to solve the problems of Holland's export-oriented industries; on the other hand, it will probably also table further action on the excess profits tax which, if enacted, could lessen incentives for foreign investors.

Originally projected as a sizable surplus, the balance of payments on current account took an unexpected slide into deficit early in 1977 for the first time since 1970. However, a small surplus was still probable for the full year. Dutch exporters are suffering from increasing costs



and the strong position of the guilder. The major exporting industries in the Netherlands—including shipbuilding and the mechanical industries—have been hardest hit by the worsening economic situation.

U.S. exports to the Netherlands in the first 7 months of 1977 reached $2.4 billion, an increase of 15 percent over the same 1976 period. The appreciation of the guilder relative to the dollar has made the prices of American products more competitive in the Dutch market.

Products which offer the best prospects for the U.S. exporter to the Netherlands are those exhibiting high technology and efficiency—the result of Dutch interest in labor-saving devices due to increases in labor costs. Such sectors include: production process control instruments, computers and peripheral equipment, electronic calculators, accounting machines and banking equipment, test equipment, security and safety equipment, and advanced production machinery in the metal and food processing industries.

The Commerce Department is sponsoring a variety of promotional events in 1978. May 23-26 there will be a U.S. Pavilion at Petrotech in Amsterdam to promote U.S. equipment sales of petroleum technology. Catalog exhibitions will be held for building and construction supplies (Feb. 28-March 3), machine tools (April 17-22), and business equipment and systems (Sept. 13-20).

SPAIN

Stagnant Economy Dims Prospects For U.S. Sales

Persistent economic stagnation will continue to dampen prospects for U.S. exports to Spain. Nevertheless, the United States should be able to maintain its position as the leading supplier to the Spanish market, particularly for advanced technology equipment, believes Kenneth Nichols of the Bureau of Export Development.

Spain's GNP is expected to grow by only 1-2 percent in 1978 as compared with 2.5 percent last year. If inflation and the balance of payments are brought under better control, there is some prospect for economic recovery by late 1978.

Since taking office in mid-1977, the moderate coalition government of Prime Minister Suarez has adopted a number of measures to deal with Spain's persistent economic problems: low growth and investment, high inflation and unemployment, and serious trade and payments imbalances.

In July, the peseta was devalued by nearly 25 percent—from 69.99 to 87.30 pesetas to the dollar. The devaluation has resulted in a major recovery of foreign exchange reserves, which totaled some $5.3 billion in October.

Shortly following the devaluation, the government adopted a major austerity program, including steep increases in energy prices and taxes and a tighter monetary policy. The Suarez government also submitted a formal membership application to the European Communities. Negotiations are expected to begin by the end of 1978. Spain has long had a preferential trade agreement with the Common Market.

To strengthen earlier measures, Prime Minister Suarez and the major opposition political parties agreed in October to a general economic program—the Moncloa Pact—which largely concentrates on inflation and unemployment. Inflation reached nearly 30 percent in 1977, as compared with 20 percent for the previous year. The sharp jump was due in part to major wage increases and high consumer demand. Unemployment also rose in 1977 to nearly 6 percent, unofficially estimated at one million workers.

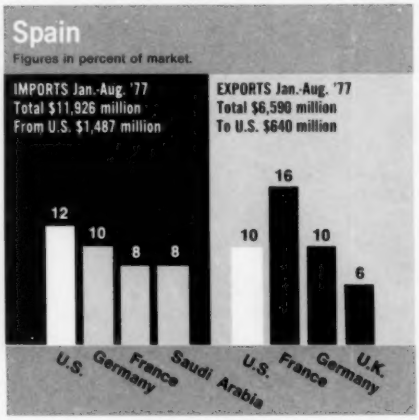
Under the Moncloa Pact, the opposition political parties agreed to support government wage controls and other measures in return for tightened price controls, tax reform and improved labor benefits. The critical issue will be acceptance by Spain's emerging labor union movement of a 22 percent ceiling on wage increases in the current year.

During 1977, the national syndicate structure (government-controlled labor/management organizations) was dismantled in favor of free trade unionism. Although union membership remains a small fraction of the overall work force, union recruitment will undoubtedly increase in 1978, particularly due to labor plant elections that are scheduled for January and February.

A positive note for the Spanish economy in 1977 was the reduction of the balance of payments deficit to an estimated $3 billion, as compared with $4.25 billion in the previous year. The trade deficit was cut by some 20 percent, largely due to the sluggish performance of imports, particularly petroleum. Exports expanded sharply in 1977, aided by the July devaluation.

Devaluation also boosted tourist receipts and emigrant worker remittances. Both items, along with foreign investment, have traditionally offset Spain's perennial trade imbalance. Spain has long maintained a liberal attitude toward foreign investment as codified in its 1974 Foreign Investment Code and subsequent legislation. Many investors, however, are maintaining a "wait and see" attitude concerning the Suarez government's ability to cope with the economic recession. The United States remains the leading foreign investor, with total U.S. direct investment reaching an estimated $2 billion at the end of 1976.

Strong demand for U.S. goods and services exists in the following areas: health care equipment, electrical power equipment, computers and peripheral equipment, process control instrumentation, laboratory instruments, security and safety equipment, food processing and packaging equipment, air and water purification and pollution control equipment, communication equipment and systems and production equipment for the electronics industry. A trade mission on mining equipment is scheduled in November 1978.



SWEDEN

Imports Have Been Strong Despite Weak Economy

The Swedish economy is going through one of its worst recessions in the post-World War II period. Final data for 1977 are expected to show a reduction in real Gross Domestic Product of 2 percent. Rising labor and energy costs plus structural problems are having an adverse impact on the economy.

It was a difficult year for Sweden's export industries. Imports, however, have been fairly strong despite the generally weak economic situation. Sweden remains a good market for U.S. exports and sales prospects are expected to continue to be favorable in the year ahead. James M. Devlin of the Bureau of Export Development projects that in 1978 Sweden will

be able to halt its economic decline and record a growth rate of 1 percent.

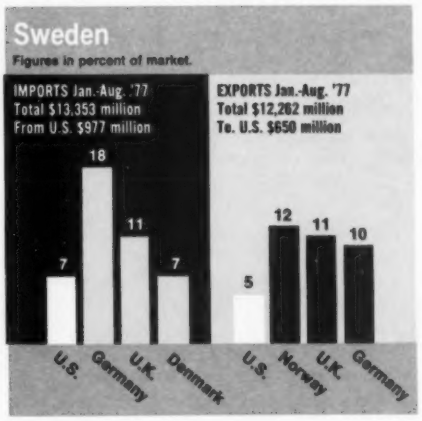
The demand for Sweden's exports has been weak and unemployment has been rising. The steel, pulp and paper and shipbuilding industries have been hard hit. The hoped for upturn in the economies of Sweden's trading partners has not developed sufficiently to give a lift to the Swedish economy. In an effort to maintain price competitiveness, the krona was devalued by 6 percent in April, followed by another devaluation of 10 percent in August. At that time, Sweden also withdrew from the European "currency snake," a move designed to loosen the krona from the upward pull of the West German mark.

Inflation and rising wage rates have been making Swedish goods overpriced on world markets. Efforts are being undertaken to improve the international competitiveness of the country's exports. In several key industries Sweden is promoting consolidations and restructuring in an effort to modernize production facilities, reduce costs, and gain greater economies of scale. Sweden hopes to boost its exports and curtail domestic consumption so it can trim the growing current account deficit, estimated at over $3 billion for 1977.

Unemployment is a major concern in Sweden. There are currently over 90,000 Swedish workers out of jobs. The problem is especially severe in some key industries such as shipbuilding and metals. To combat unemployment and stimulate the economy, the Swedish Government has, during the past year, initiated a number of special programs. Some of these programs aim at training the jobless for employment in other trades. Other programs are job maintenance efforts which, through subsidies and other means, keep workers on company payrolls who might otherwise be laid off. If these programs are taken into consideration, there is a large amount of concealed unemployment in Sweden that does not show in the official jobless figures. In actual terms, the employment problem probably affects some 200,000, or 5.5 percent of the labor force.

No early solution is seen for Sweden's current economic problems. One of Sweden's prime goals is the stimulation of trade with West Germany and its other traditional trading partners in the OECD. Only a marked improvement in export demand, coupled with domestic restraint, will help ease Sweden out of its recession.

The rate of inflation is also an important concern. The consumer price index in 1977 is estimated to have increased 12 percent. This represents a deterioration over 1976 when it rose 10 percent. The government has initiated a stabilization program to reduce private consumption and increase financial saving in an effort to hold down prices and aid economic recovery. The program also seeks to stem the rapid increase



in wages which has occurred during recent years.

Swedish imports for the full year 1977 are expected to show a gain of 8 percent over 1976. Imports are projected to decline slightly in early 1978. In the first quarter of the year imports are expected to be 2 percent below the comparable period of 1977.

Although Sweden ranks only 20th as a market for U.S. exports, it ranks higher as a market for industrial products and high technology equipment. U.S.-made products have been promoted to the Swedish market through the U.S. Trade Center in Stockholm. In early 1978, the Trade Center will stage exhibitions of electronic components, commercial and industrial security equipment and pulp and paper industry equipment.

Other products which appear to have good prospects for sale in Sweden are data processing equipment, graphic arts equipment, communications equipment, construction and materials handling equipment and health care equipment. Sweden's efforts to modernize some of its basic industries, such as steel and textiles, in order to make them more competitive, should present opportunities for U.S. suppliers of equipment for these industries.

SWITZERLAND

Recovery From Recession Enhances Import Demand

Swiss imports are expected to increase due to the country's continuing recovery from the recession and the appreciation of the Swiss franc, according to Leo Kuus of the Bureau of Export Development. Swiss GNP, which increased in 1976 by only 0.5 percent, is estimated to have grown by 2.5 percent in 1977 and is expected to maintain this rate in 1978.

The Swiss business community has adapted itself to the consequences of the recession, namely, under-utilization of production capacity, low profit margins, and continuing appreciation of the Swiss franc. Business has not called for any large-scale, government-financed economic programs, because of doubts about the usefulness of such programs and sensitivity to their effect on price stability. This attitude appears to be paying off, since domestic and foreign demand for Swiss products has started to increase.

Price developments in Switzerland are influenced mainly by the very low inflation rate—1.6 percent at the end of September on an annual basis—and appreciation of the Swiss franc in relation to the dollar—at the end of 1977 the Swiss franc was quoted about 20 percent higher than a year ago. Under these circumstances, U.S. goods have become very competitive on the Swiss market.

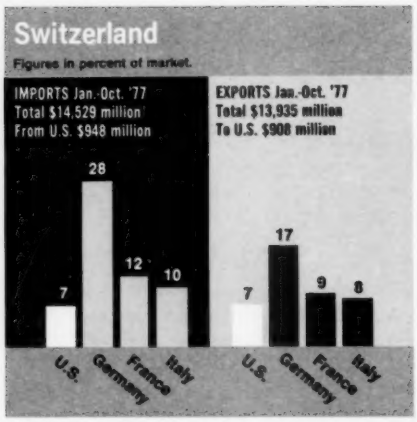
The following product categories are considered to have the best sales potential in Switzerland: computers and peripherals, microprocessors, laboratory and scientific instruments, process control instruments, biomedical equipment, business equipment and energy systems. The United States has a leading position in the Swiss market for computers and microprocessors but is trailing West Germany in other product categories.

In 1978 the Department of Commerce will support an in-store promotion at Switzerland's leading department store, Jelmoli, in Zurich, and a catalog exhibition of process control instrumentation for the chemical industry at ILMAC in Basel. In addition, there will be a major U.S. exhibition presented at the 5th International Nuclear Industries Fair and Conference (NUCLEX) in October in Basel.

Swiss political and economic stability and the efficient banking system continue to be conducive to foreign direct investment, despite the lack of any promotion from the federal and most cantonal governments. Because of the depreciation of the dollar, U.S. direct investments in Switzerland have increased in recent years, mainly through reinvested earnings, to a total of $5.2 billion at the end of 1976.

Recession has adversely affected the flow of Swiss direct investments abroad, but gradual economic recovery may again result in certain industries transferring capital abroad when production there seems more economical than exporting from Switzerland. At the end of 1976, Swiss direct investments in the United States amounted to $2.3 billion and ranked fourth after Canada, the United Kingdom and the Netherlands.

The reputation of Swiss banks was temporarily harmed in 1977 when one of the largest suffered heavy losses because of questionable investments made by one of its branch offices. However, this scandal had no permanent effect on the Swiss banking system. Not only were the losses covered through a joint action by other banks, but a new gentleman's agreement



between the Swiss National Bank and the Swiss Bankers' Association codified rules of good conduct and strengthened the National Bank's control over banks and other financial institutions.

Considering the continuous appreciation of the Swiss franc, the government's effort to ward off the inflow of unwanted short-term capital by imposing negative interest rates on non-resident bank deposits has not been completely successful. At present a 10 percent commission per calendar quarter is charged on all increases of non-resident-held Swiss franc deposits in excess of SF 100,000 (about $50,000) received after Oct. 31, 1974. In addition, interest is prohibited on all foreign Swiss franc deposits in excess of SF 50,000.

UNITED KINGDOM

Growth Strategy Provides Basis For More U.S. Sales

U.S. exports to the United Kingdom of cost-saving machinery and equipment, which did well in 1977, are likely to do even better in 1978 as British Government strategy remains centered on expanding industrial investment and promoting economic growth through concentration on export-oriented industries. Expected increases in private fixed investment in manufacturing should support this development, according to Bureau of Export Development trade specialist Paul A. Norloff.

The market for consumer goods, dormant during 1977, is likely to be significantly improved in 1978, supported by earnings increases in excess of the anticipated rise in consumer prices. Reflationary measures introduced by the government in October, coupled with an expected 1 billion-pound tax cut in the 1978 spring budget, will provide the basis for this development. The pound sterling stabilized during the latter half of 1977, reflecting a recovery in international confidence resulting from improvement in the visible balance of payments owed primarily to North Sea oil. Improved confidence was also supported by a reduction in the rate of inflation during the latter half of the year, largely because of the success of the government's pay policy.

Although the two-year-old government-Trades Union Congress agreement holding down excessive wage increases ended Aug. 1, the government has insisted that new wage agreements concluded after that time must be limited to a maximum of 10 percent annually and must run for a full 12 months. Convinced that such wage restraint is essential to win the fight against inflation and is central to economic recovery, the government has resisted all efforts (including those of striking firemen) to break these guidelines, and has received strong support for this policy from all sectors of the economy.

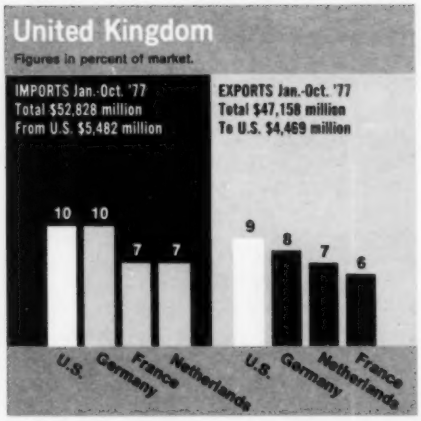
While unemployment increased overall by about 100,000 during the year, there were reductions in the seasonally adjusted totals for each of the last three months of 1977, but the overall rate for the year stood at 6 percent. Average earnings for 1977 rose by about 10 percent, while consumer prices moved up by perhaps 12 percent. The rate of price increases was decelerating during the latter half of the year, leading many observers to conclude that a reduction of inflation to the single-digit level may be attainable early this year.

While private fixed investment fell by 2 or 3 percent during 1977, manufacturing investment rose during that time by about 4 percent and is projected to grow by about 9 percent during 1978. Public expenditure during 1977 grew by less than 1 percent, while public investment declined by 17 percent. While public expenditure in 1978 will likely grow slowly, public investment should recover and show some real growth.

The balance of payments moved into surplus during the year, thanks largely to North Sea oil, and the end of 1977 is likely to show a surplus of about 500 million pounds. Gross domestic product is expected to have remained almost unchanged during 1977, with the only buoyant element of demand being exports of goods and services. Expectations for 1978, however, generally range from 2.5 to 3.5 percent in GDP growth. Real disposable personal income is expected to grow about 5 percent, with an equivalent increase in consumers' expenditure.

U.K. imports from the United States, January-October, were valued at $5,482 million, an increase of 17 percent over the same period in 1977 and constituting a 10 percent share of total U.K. imports of $52.8 billion. U.K. exports to the United States reached $4,469 million, making up 9 percent of total U.K. exports. As in the past, the United States in 1977 ranked as Britain's most important supplier and market.

Last year witnessed the completion of



the alignment of U.K. national tariffs to the Common External Tariff of the European Community. The final adjustment was made on July 1, when U.K. tariffs on industrial goods imported from other than European Community members were moved by the final 20 percent increment to the level of the Community's Common External Tariff.

The United States Trade Center in London is staging exhibitions of computers/peripheral equipment in January, pollution control devices in April, and process controls in June.

AUSTRIA

U.S. Seen Maintaining Its Share Of Import Market

The United States' relatively modest 3 percent share of Austria's import market camouflages a 20 percent increase in U.S. exports to Austria through August 1977, compared with the same period a year earlier. This rate of increase exceeded Austria's overall rate of import growth in this period of about 15 percent, reports V. Stanoyevitch of the Bureau of Export Development.

The U.S. export mix has remained rather stable. Of total U.S. exports to Austria in 1976 of $343.4 million, industrial chemicals, semi-finished products and machinery, and other finished products accounted for more than half ($180.3 million). In the machinery group, office machines, motor vehicles and aircraft together accounted for $54.4 million.

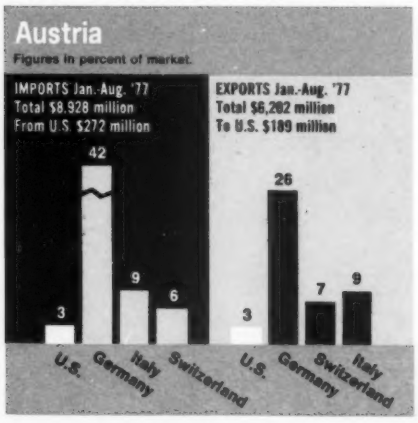
U.S. manufacturers were sufficiently competitive to overcome the advantages enjoyed by their competitors in EEC and EFTA countries, most of whose industrial products are now admitted to the Austrian market duty free. Some of the factors which accounted for this performance are likely to be present this year—the United States strong competitive position deriving from rising production costs in Austria and the depreciation of the dollar over the past year. Nevertheless a repeat perform-

ance this year does not appear likely, though U.S. exporters should still be able to make some gains and maintain their overall percentage share of the Austrian import market.

In common with many other industrial countries, Austria has experienced a marked slowdown in the pace of economic activity. Its rate of real GNP growth for 1977 is now estimated at 4 percent; the consensus for this year is within a range of 1.5 to 2.5 percent. Following a marked deterioration of Austrian current account balances in the last two years, the government in Vienna has taken a number of fiscal and monetary steps to dampen the avalanche of imports, directed primarily at luxury type products, such as passenger cars and certain processed and canned foods, which do not figure very prominently in the composition of U.S. exports to Austria. Effective Jan. 1, the Austrian value added tax on a number of luxury type imports went up from 18 to 30 percent. The Central Bank had shifted gears to a tight money policy in mid-1977, when it raised the discount rate from 4 to 5.5 percent. Moreover, to discourage borrowing for consumer luxury imports, bank limits for new consumer or installment lending have since been drastically reduced.

According to the U.S. Embassy, the Austrian market should be particularly receptive to U.S. electronic production, testing, and measuring equipment and components, mini-computers and business automation equipment, health care and biomedical equipment, and laboratory and scientific process control instrumentation. Significantly, leisure time products, including apparel, have been repeatedly identified as having a strong market potential in Austria—itself a major exporter of such products, particularly for winter sports.

The Commerce Department, in cooperation with the Embassy, has sponsored various trade promotion activities, emphasizing "in store" promotions of U.S. consumer goods through leading retailers and department stores in Vienna and other large Austrian cities, catalog exhibitions, technical sales seminars and industry trade missions. Vienna also serves as a launching pad for export sales in neighboring Eastern European countries.



DENMARK

Only Moderate Growth Seen In Imports From U.S.

Because of a determined Danish Government effort to reduce its large balance of payments deficit, overall U.S. sales to Denmark during 1978 are expected to increase only about 3-4 percent, according to Donald R. Trafton of the Bureau of Export Development. Sales of traditional U.S. agricultural products and capital goods should increase slightly, but exporters of consumer goods will do well to hold their own as a result of measures aimed at containing the rise in consumer spending to 1 percent or less.

Recently introduced measures to dampen domestic demand include a 20 percent increase (from 15 to 18 percent) in the value added tax; various increases in excise taxes on tobacco products, liquor and petroleum products; and a substantial increase in auto registration fees.

Unfortunately, these measures will do nothing to alleviate the distress on the labor scene, which is currently suffering from a more than 7 percent unemployment rate. The forecast for 1978 is for an annual average rate of 7 to 8 percent; however, the economic impact of this high unemployment is diminished considerably by relatively high, state paid, unemployment benefits (up to 90 percent of average earnings). On the brighter side, other measures have been taken by the government to stimulate business investment and to increase employment.

Although due to underutilization of production capacity, overall spending on plant and equipment was down slightly from 1976, imports of capital goods during the first half of last year showed a 10 percent increase compared with the same period of 1976. Residential building, however, dropped about 10 percent during the year. One of the potential bright spots is energy. There are prospects that additional coal and uranium deposits will be discovered in Greenland, and exploitation of oil and gas finds in the Danish sector of the North Sea will allow Denmark to reduce energy imports. Production from these sources will eventually assist the government's concerted efforts to reduce its balance of payments deficit, which is estimated to total about $1.6 to $1.8 billion for 1977. If the various economic belt-tightening measures are effective, it should be 10-20 percent lower for 1978.

Inflation is another troublesome economic worry. In October 1977, the Consumer Price Index (1964=100) rose to 288.7, an increase of 12.7 percent since October 1976. Wholesale prices fared somewhat better as the Wholesale Price Index rose only 7 percent during the year ending October 1977. The government hopes to hold consumer price increases below 10 percent in 1978.

When year-end statistics are released, they are expected to show that Denmark's GNP grew only about 1 percent in real terms during 1977. Forecasters are predicting a modest, but improved, growth of about 3 percent for 1978.

Since Sweden is one of Denmark's two leading trade partners (the other being Germany), the Danes were practically forced to follow the August Swedish devaluation by one of its own. Although Sweden devalued its krona by 10 percent (and left the "snake"), the Danish krone stayed tied to the "snake" and was devalued by only 5 percent. Since 1971, the Danish krone has depreciated by 24 percent relative to the German mark, but has appreciated by 12 percent in relation to the U.S. dollar.

During the first three quarters of 1977, Danish exports totaled $7.3 billion, an increase of 8.75 percent over the same period of the previous year. About 15 percent each went to Germany, Sweden, and the United Kingdom. Six percent ($430 million) was exported to the United States, an increase of 8 percent over the same previous period.

During the same January-September 1977 time frame, Danish imports rose 8.2 percent to near $10 billion. Major suppliers were Germany with 19 percent and Sweden with 13 percent. However, imports from the United States increased a whopping 29.6 percent to $582 million.

Among the product categories that appear to have a good potential for sale in Denmark are electronic data processing equipment, safety and security equipment, production and test equipment for the electronics industry, packaging machinery and handling equipment and avionics equipment.

FINLAND

Difficult Economic Period Is Restraining U.S. Exports

The economy of Finland is going through a difficult period of adjustment. There is little likelihood of any significant growth in U.S. exports to Finland during the coming year. A high rate of inflation, unemployment, weak demand for Finnish exports and other factors have put a severe squeeze on the economy. Government measures to correct the situation have recently been initiated, but their effects will probably not be felt until 1979. James M. Devlin of the Bureau of Export Development expects that the recovery, when it comes, will present an opportunity for U.S. exporters of high technology capital goods which will be needed for the anticipated industrial expansion.

The 1976 GDP of $28.8 billion represented a real growth of only 0.7 percent. This stagnation continued into 1977, and GDP for the year, when tallied, will probably show a real growth of less than 1 percent. GDP in 1978 is expected to remain at about the same level as 1977.

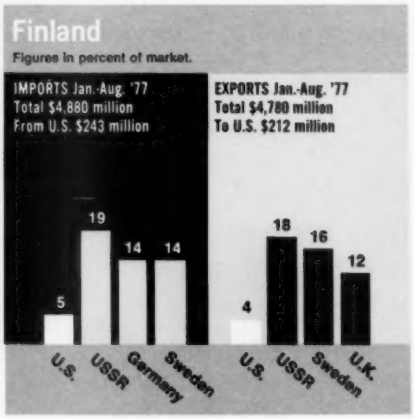
For Finland, the impact of the general worldwide recession of 1974-75 was delayed because government policy was programmed to maintain a high level of domestic activity. Finnish exports, however, were affected as the country's traditional market partners reduced their purchases. At the same time, higher prices and wage costs resulted in a deterioration of the price competitiveness of Finnish goods.

Inflation remains a prime problem. Efforts to fight it have had a modest degree of success, but it appears unlikely that inflation will soon fall much below the current rate of 12 percent. The 5.7 percent devaluation in April and the 3 percent one in August have added further pressure to the upward push on prices as have higher raw materials costs. Recent wage increases have been running at a lower rate due to agreements worked out with labor.

The government has been following a policy of restraint in public spending. Consumer spending has also been restrained. During the first half of 1977, there was a 10 percent decline in wholesale trade in consumer goods and also a drop in consumption of gasoline and more expensive food products. This tightening of spending is viewed as necessary in order to restore economic stability.

There is growing concern about the unemployment situation. During the period 1975-77 employment fell almost 5 percent and no improvement is foreseen in 1978. It is expected that the jobless rate will exceed 7 percent.

When recovery occurs in Finland's principal trading partners, there will be demand for the products of the metals and forest products industries. However, there is little hope of any change in the depressed shipbuilding industry.



Although the present situation is somewhat restrictive, opportunities for sales do exist and will expand when the economy recovers. Finland will continue to be a good market for U.S. capital equipment. Among product categories that will have better than average sales potential are computer systems, equipment for the chemical, metals and forest products industries, communications equipment, electronic components, and process control instrumentation.

NORWAY

Investment Plans Generate Optimism For The Economy

Norway's economy will continue to expand as it adjusts to its new position as an oil producer, according to James M. Devlin of the Bureau of Export Development. The rate of growth, however, has slowed from the pace of the past several years.

For U.S. exporters, Norway will continue to be a good market for a wide variety of industrial equipment and consumer items. The U.S. market share, however, may decline somewhat from recent years as imports of equipment for the oil industry decrease from previous high levels. During the first nine months of 1977 Norwegian imports from the United States were off 3 percent from the same period of 1976.

Norway's economy has been more buoyant than the economies of its neighboring Nordic countries. However, some of Norway's traditional export industries have been hard hit by slack world demand and a decrease in their price competitiveness. The value of the krone was adjusted downward 3 percent in April and 5 percent in August.

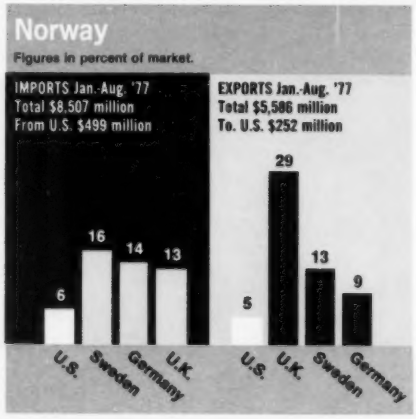
During this period of weak export demand, domestic consumer demand has remained high. Private consumption, up 6.3 percent in 1976, continued strong in 1977 because of the expansive comprehensive wage and income settlement in the spring. Norway is managing to keep unemployment low, but restraints being placed on demand, if effective, may lead to higher joblessness in 1978.

Investment remains fairly strong. Total investment for 1977 is expected to be up nearly 3 percent. Industrial investment presents a brighter picture and might record an increase of 10 percent. Investment plans for mining and electric power are high. Plans for food, pulp and paper and printing are above normal. Investment in the engineering and metals sectors is down, reflecting the depressed state of the shipbuilding industry. In general, these investment plans are generating optimism for the economy in 1978.

The Norwegian balance of payments deficit remains large, and in 1977 rose to about $5 billion. It will continue to be financed by large foreign borrowing. Foreign debt is expected to be up $1.3 billion in 1977 to around a total of $6.3 billion. The bulk of the debt is used to finance Norwegian shipping and petroleum exploration and development.

Within the next few years, revenue from petroleum is expected to rise sharply as more oil wells on Norway's continental shelf come into production. The increased revenue is not expected to generate sudden expansion in consumer demand. Norway plans to keep the rise in real disposable income at a controllable level in order to avert inflationary pressures and restore the competitiveness of export industries. It hopes to hold gains in real disposable income to 1.5-2 percent annually.

During the years ahead, Norway will encourage restructuring and modernization of its industries, particularly capital intensive ones such as petrochemicals, electronics, and pulp and paper. This will present opportunities for the sale of American equipment, especially process control instrumentation, communications equipment, computers and other business machines, anti-pollution equipment and machine tools.



PORTUGAL

Economic-Political Situation Limits U.S. Export Potential

U.S. exporters will continue to find diminished sales opportunities in Portugal due to the persistent economic recession and uncertain political situation. Negotiations are being held to form a new government under current Prime Minister Mario Soares. Whatever government emerges will undoubtedly have to implement austerity measures which may include import restrictions, according to Kenneth Nichols of the Bureau of Export Development.

Although Portugal's GDP is estimated to have grown by some 5 percent in 1976 and 1977, the overall economic situation is characterized by low productivity, high inflation and unemployment and serious trade and payment deficits.

Import demand remained high in 1977 despite the imposition of extensive tariff restrictions and substantial depreciation of the escudo. The government recently instructed commercial banks to reduce credit financing for consumer and capital goods imports.

Unemployment accelerated in 1977 to over 15 percent. The high level is the result of a rapid increase in the labor supply in the mid-1970's brought about mainly by the repatriation of over 600,000 Portuguese from former African colonies, demobilization of the armed forces and a sharp drop in emigrant workers.

Inflation increased to 25-30 percent last year due to rises in both wages and the price levels of imported goods.

In an effort to deal with the country's economic problems, the last Soares government introduced a major austerity program in August which included sharp increases in interest rates and fuel prices. The Soares government presented its 1978 Development Plan to the National Assembly in late November. Among the plan's targets are a moderate increase in Gross Domestic Product, reduction of the rate of inflation to 20 percent, and holding of the current account deficit to under $1 billion.

In addition to extensive bilateral foreign assistance, Portugal has been negotiating with the International Monetary Fund for an $800 million loan to help cover its growing payments deficit. In return for IMF assistance, Portugal was to agree to further austerity measures to correct the current economic disequilibrium. At this particular juncture, the Soares government was unable to obtain approval by the National Assembly for its austerity program and was subsequently forced to resign.

Traditionally the foreign trade deficit has been offset by emigrant worker remittances, tourism and foreign capital inflow. All three items have fallen sharply since the 1974 revolution, although there has been some recovery in tourist receipts and emigrant remittances.

In an effort to attract new foreign investment, Portugal adopted a new foreign investment code in 1977 which replaces an earlier, more restrictive regime. The United States remains the largest single investor in Portugal, with some 100 U.S. companies having over $200 million in investments.

Strong opportunities for U.S. goods and services exist in the following areas: building, construction and mining supplies and equipment, energy systems, metalworking machinery and finishing equipment, food processing and packaging equipment, instruments and equipment for the health care industry, railway equipment (including subway), textile machinery and equipment, and petrochemical projects. In November, the Department of Commerce will sponsor a trade mission on mining equipment to Portugal.

YUGOSLAVIA

Development Plan Requires Imports Of Capital Goods

Yugoslav imports may increase only slightly in 1978, according to Leo Kuus of the Bureau of Export Development, because of the government's policy to hold foreign purchases near the level of a year ago.

The Yugoslav Social Product (a GNP equivalent) increased in 1976 by 4.2 percent and is estimated to have grown about 7 percent in 1977. In 1978 a slower rate of growth is expected. The need to correct the balance of payments disequilibrium is likely to have adverse effects on industrial production and employment, and thus on the growth rate.

The deterioration in the foreign trade balance from a $2.5 billion deficit in 1976 to a deficit of about $5 billion in 1977 calls for measures which will affect the business climate in 1978. However, the Yugoslav business community is accustomed to the cyclical nature of the Yugoslav economy and is confident that it can cope with new import restrictions or exchange controls should they be enacted.

The low productivity of workers, the large number of inefficient investments, an increase in the money supply, and an increase in the import prices of many basic commodities have given rise to inflationary pressures. Most prices have been contained administratively through social accords between enterprises and local governments as well as through direct government controls. The cost of living increased in 1976 by about 12 percent and may have risen 15 percent in 1977.

Since mid-1975 Yugoslav enterprises have had to show export earnings to a certain extent of the value of the desired imports, 30 percent in the cost of foreign equipment and 100 percent when consumer goods are involved; this counter-trade requirement has become a permanent feature in Yugoslav foreign trade policy. Countertrade requirements will continue to have an adverse effect on the flow of free trade in general and particularly on those American firms which have no strong commercial ties with Yugoslav enterprises.

The Yugoslav Five-Year Plan (1976-80) emphasizes the development of the country's own energy resources, raw materials, and food production, especially in the private sector. Rapid structural change is to be achieved through new capital investments and use of modern technology. Consequently, good prospects exist for the following product categories: metalworking equipment, machine tools, mining equipment, chemical equipment, textile machinery, laboratory instruments, and electrical power equipment.

The Department of Commerce will sponsor a technical sales seminar on petrochemical processing equipment to Yugoslavia in March and a trade mission on mining equipment in November. In addition, there will be a U.S. pavilion at the annual Zagreb Fall Fair in September featuring a U.S. thematic exhibit, industrial video-tape presentations on food processing and packaging, and a number of individual company presentations.

GREECE

Steady Economic Growth Heightens Import Demand

The Greek economy is expected to record a third straight year of steady growth in 1978, according to Sally K. Miller of the Bureau of Export Development. This expansion has been accompanied by a rising import trend, although U.S. exporters were unable to repeat in 1977 their exceptional performance in the Greek market in 1976.

Economic growth has coincided with a dramatic turnaround in the Greek balance of payments position. The current account deficit for 1977 was only $1 billion, a sum which will be more than covered by capital account inflows. Particularly strong sectors include construction, private consumption and export demand, especially from the Middle East. Soft spots over the long term include inflation (at 13 percent in 1977), lack of new investment and continuing urban-rural economic disparities.

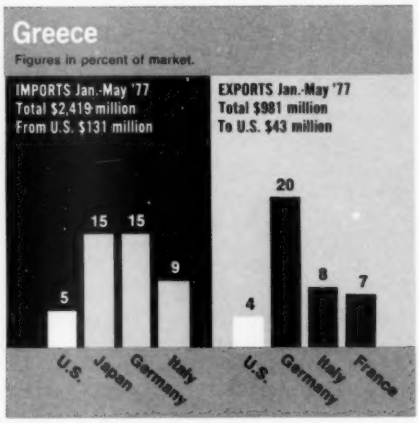
Until recently the small size of the Greek market and the dominant position of the EEC had discouraged many U.S. exporters from entering the market, but three new factors should cause U.S. firms to reconsider its profit potential: the emergence of Athens as a regional business and marketing center to cover the Middle East and Mediterranean areas, Greece's approaching entry into the EEC, and Greece's own desire for greater energy and mineral independence. Additional Greek Government incentives in this direction over the past year were reductions in the import deposit requirement, and the granting of permission to Greek commercial banks to engage legally in offshore foreign currency transactions.

Implementation of public sector development programs and an anticipated upswing in private investment offer trade opportunities for U.S. firms, as the demand for high quality, technologically advanced products grows. Strong export opportunities exist for communications equipment and systems, mining equipment, food processing and packaging machinery, agricultural equipment, pollution control systems, and aviation and avionics equipment. Of continuing importance to U.S. business is Greece's five-year program to invest over $500 million in new plants and equipment in the mining sector.

The Public Power Corporation's ten-year power development plan foresees a 95 percent increase in generating capacity by 1986, with the addition of hydroelectric units totaling 1,550 megawatts, lignite-fired plants totaling 2,400 megawatts, and a 600-megawatt nuclear power plant. Olympic Airways has plans for the acquisition of additional aircraft in the next few years, and also intends to develop its limited cargo service. The Greek Government plans to upgrade and automate its air traffic control systems and to build a new international airport for the capital area.

Modernization and expansion of facilities of the Hellenic Telecommunications Organization should stimulate demand for a variety of telecommunications and electronic equipment. The railways plan to modernize and electrify the rail network and, more immediately, to install a signalling system on the Athens-Thessaloniki line.

U.S. firms will have to react swiftly and competitively, particularly in pricing, to win sales and contracts. Energetic salesmanship and favorable financing are key factors in the face of European and Japanese competition and progressive tariff reductions on EEC products.



TURKEY

Foreign Exchange Shortage Delays Import Payments

U.S. exports to Turkey are holding up well, according to Sally K. Miller of the Bureau of Export Development. The strength of U.S. exports in the face of severe foreign exchange shortages is largely due to the willingness of U.S. firms to ship to their agents and purchasers in the knowledge that payment will not be received immediately. Fewer than half of Turkey's imports in the first half of 1977 were paid for by the end of that period. As exchange becomes more scarce, even longer delays can be expected.

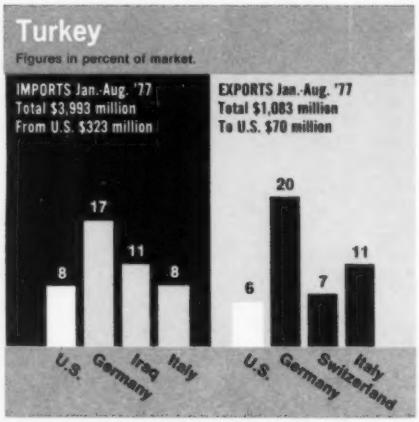
Turkey's 1977 import bill approached $6 billion; the lackluster performance of its largely agricultural exports on world markets resulted in a trade deficit of nearly $4 billion. Coupled with declines in foreign capital inflow, worker remittances and tourist earnings, the accumulated drains on the country's foreign exchange have cut reserves in half since January 1977. Total reserves stand at approximately half a billion dollars.

Turkey's goal of rapid, state-directed, heavy industrialization may be in jeopardy since it is dependent on large inflows of foreign funds and capital goods. Already Turkey's real growth has slowed to 5.5 percent from its long-term average of 7 percent. Turkey's inability to meet its short-term commitments, with a debt service ratio close to 20 percent, is causing international lenders to exercise more caution in extending further credits. Turkey's resulting difficulty in paying for industrial inputs will shortly start to cause production slowdowns.

One of the keys to a way out of this dilemma is a stabilization agreement on austerity measures to be negotiated with the IMF. When concluded, expanded IMF credits will be made available to Turkey. Some measures along these lines, including a 10 percent devaluation, were enacted by the former government in September. The resolve of the new Ecevit government to adopt further austerity measures acceptable to the IMF remains unclear in the wake of the Dec. 31 vote of no confidence which toppled the government of Premier Demirel.

For those in a position to withstand the credit delays, the more modest sights of the new Five-Year Plan offer sales and service opportunities in a number of areas including railways, cement and fertilizer plant construction and numerous other industrial machinery and equipment plants. Turkey has prepared pre-investment studies of 20 sectors in which it seeks to spur investment, including packaging, apparel, bricks, olive oil processing, electrical motors and chipboard. Prospects are particularly bright for sales of electrical power generating equipment. The government has accorded priority to the building of 129 hydro and 12 thermal power plants valued at $5.5 billion through 1995.

U.S. sales prospects remain strongest in automobiles and tractors and in the capital goods areas of construction and mining equipment, heating and cooling equipment, pumps, valves and compressors, mechanical handling, metalworking and textile machinery and equipment. Anthracite coal and iron and steel scrap are in demand.



TRADE LEVELS WITH COMMUNIST COUNTRIES ARE EXPECTED TO INCREASE THIS YEAR

Their Economic Plans Stress Modernization

U.S. trade with the communist countries is expected to increase this year. Such trade yielded the United States an estimated $1.5 billion surplus in 1977, despite a nearly one-third decline in U.S. exports to the area, notes Susanne S. Lotarski of the Bureau of East-West Trade.

Last year's exports, estimated at $2.6 billion, are expected to show modest increases to three countries—Hungary, Romania, and the People's Republic of China. Decreased agricultural sales contributed significantly to the declines in exports to Bulgaria, Czechoslovakia, the German Democratic Republic, Poland, and the USSR. Sales of manufactured goods registered gains to Bulgaria, Hungary, and Romania, but slipped substantially to the USSR, the PRC, and Poland.

Total imports from this area increased slightly in 1977 to an estimated $1.1 billion, with purchases from Romania showing the greatest gains.

The mixed results of U.S. trade with this area reflect both economic and political constraints. Over the last several years, all of these countries, except for the PRC, have been experiencing deficits in their trade with the United States, Western European countries and Japan, in some cases of major proportions. Seeking to limit hard currency expenditures, the communist countries are cutting back on non-essential imports and increasingly turning to countertrade arrangements. With uncertain prospects for government and non-government credit and Most-Favored-Nation trading status (other than Poland and Romania) from the United States, the outlook for expansion of exports of U.S. manufactured goods remains uncertain in 1978.

Despite had currency shortages, total U.S. exports to the communist countries should expand in 1978 because of an increase in purchases of agricultural products by the PRC, the Soviet Union, and Poland. The extent to which these purchases will limit hard currency resources allocated to development projects will determine the level of U.S. manufactured goods exports to the area in 1978.

A notable improvement in the climate of U.S.-Soviet relations occurred in 1977 even though no progress was made on the major issues of MFN, Eximbank credits and implementation of the 1972 trade agreement. Annual meetings of the Joint U.S.-USSR Commercial Commission resumed after a two-year hiatus and Foreign Trade Minister Patolichev met with the Vice President and the President, respectively, on his visits to the United States in June and November. Prompt agreement on grain shipping rates and balancing cargoes under the Maritime Agreement compared favorably with the drawn out controversies in 1976. Informal but regular meetings in Washington and Moscow between host government representatives and Embassy officials were initiated in mid-1977, to help resolve operational problems affecting the commercial environment on both sides and to head off minor but potentially troublesome business facilitation issues.

In Eastern Europe, relations with Poland and Romania continued to develop favorably, with further initiatives for trade development being proposed in the joint trade commissions. U.S. relations with Hungary took an upward turn at the end of 1977, with the decision to return the Crown of St. Stephen and begin discussions on a bilateral trade agreement. Czechoslovakia, the GDR, and Bulgaria all continued to evince interest in attaining normal commercial relationships. As for the GDR, an industry joint U.S.-GDR Trade and Economic Council held its first meeting, and informal governmental discussions on trade matters have been initiated.

The climate for trade with China also improved last year with the greater openness of the Chinese to foreign contacts and increasing exchanges of U.S. and Chinese traders, technicians and officials.

As the communist countries enter into the second half of the current five-year plans, their 1978 economic plans emphasize completion of projects under way and modernization of plant facilities rather than initiation of new projects. Lower or constant growth rates for investments and industrial production are slated for most countries except Romania and China. Emphasis on improved quality and efficiency of production and on savings of energy and raw materials is a common thread of all plans.

In foreign trade, 1978 plans of most of these countries call for a rising share of trade with each other. Expansion of exports, curbs of import growth, and emphasis on countertrade and industrial cooperation dominate plans for trade with the West.

A major Commerce-sponsored trade promotion program is planned for the communist countries for 1978. Contact: Trade Promotion Division, Bureau of East-West Trade, Room 4821, U.S. Department of Commerce, Washington, D.C. 20230; telephone, 202-377-4161.

USSR

U.S. Exports Seen Bouncing Back From 1977 Decline

American exporters in 1978 should be able to increase their sales to the Soviet Union considerably over 1977 when U.S. sales dropped about 30 percent from the previous year to an estimated $1.6 billion. A major factor, William P. Keasbey, Jr. of the Bureau of East-West Trade notes, is the disappointing Soviet harvest in 1977. This means that in 1978 the Soviets will have to purchase more grain, which normally makes up over 60 percent of total U.S. exports. With the grain purchases, U.S. exports to the Soviet Union in 1978 should amount to about $2 billion.

The Soviet annual economic plan for 1978 calls for a 10 percent expansion in the volume of foreign trade and for an increase in the communist countries' share from 55 to 59 percent of the total. This would imply that Soviet trade with non-communist countries would grow only negligibly. Even so, an increase in U.S.-Soviet trade is expected.

The economic plan indicates that priority attention will be given to the fuel and energy complex, the iron, steel, and nonferrous metal industries, chemical industry, and machine-building industries. Stress continues to be laid on improvements in quality, rapid assimilation of technology, and economy in the use of raw materials and fuel.

Analysis of plan priorities and past experience indicate that there should be good opportunities for sales of oil exploration and producing equipment, compressor modules for gas pipelines, testing and regulating instruments, lifting and loading equipment, computers, and air navigation and safety equipment. Significant contracts signed in the latter half of 1977 included those for an agro-industrial complex in Moldavia, two polymer plants, an information storage and retrieval system for the Olympics, seismic equipment for

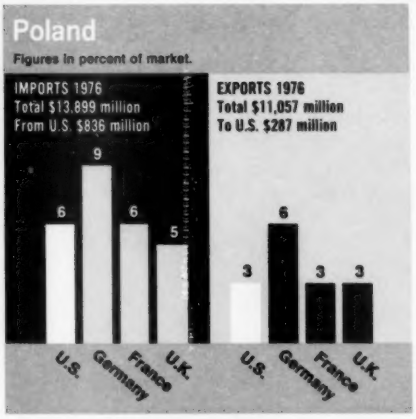
oil exploration and a contingent of bulldozers.

One of the limiting factors on Soviet purchases of machinery and equipment from the West will be the high level of Soviet foreign indebtedness. Most authorities agree that the total foreign debt is well within Soviet ability to repay, but, there is concern about how much more can be lent safely. Certainly the Soviets are making every effort to conserve on the use of hard currencies. One aspect of this effort is the emphasis on compensation arrangements, in which a Western exporter of equipment agrees to purchase goods from the Soviet buyer equal to a certain percentage of the original sales contract. Often the Western firm agrees to buy the product of the plant it is installing in the Soviet Union. U.S. firms in a position to enter into compensation arrangements—that is, those able and willing to market or otherwise utilize the Soviet products—will thereby have an advantage in competing for Soviet contracts.

The Commerce Department is sponsoring U.S. participation in three major commercial exhibitions at the Moscow fairgrounds, and ten seminar/exhibits at the U.S. Commercial Office in Moscow during 1978. Of the commercial exhibitions, one will be a solo show sponsored jointly by the National Machine Tool Builders Association and the Commerce Department; the others will be international exhibitions of agricultural equipment and scientific instruments. The programs at the Commercial Office will include geophysical exploration, printing, cardiology, logging equipment, land reclamation, pollution controls, oil extraction, plastics production, packaging equipment and ferrous metallurgy.

In November, the private sector U.S.-USSR Trade and Economic Council met in Los Angeles. The record number of attendees, including about 400 U.S. businessmen and the high-level government officials on both sides who took part, testified to the strong interest in expanding trade between the two countries. The Soviet delegation, headed by Minister of Foreign Trade Patolichev, urged again that the USSR be granted Most-Favored-Nation treatment and that the U.S. restrictions on government-backed credits be removed. U.S. officials, led by Commerce Secretary Juanita M. Kreps and Treasury Secretary Michael Blumenthal, agreed on the desirability of trade normalization but stressed the need to work within the existing legislative framework for the present.

Soviet foreign trade officials came to Chicago and Washington in December to conduct seminars for U.S. businessmen on how to market in the Soviet Union. A reciprocal seminar on marketing in the United States is planned for Moscow in the spring.



POLAND

Trade Turnover Is Lower But Opportunities Continue

U.S.-Polish trade for 1977 will total about $750 million but will not surpass the record high levels of 1976. Year-end figures should show exports to Poland valued at about $420 million and imports at $330 million, reports Richard Lesczynski of the Bureau of East-West Trade.

Although most categories of U.S. exports to Poland showed some decline in 1977, a sharp drop in export of agricultural commodities accounted for much of the decrease. Recent and projected increased purchases of feed grains will not be reflected in trade statistics until 1978. Exports of machinery and equipment also declined in 1977 but chemicals continued as a strong export item.

Of the U.S. imports from Poland, which edged passed the 1976 record, manufactured items again predominated.

These statistics reflect Poland's efforts to reduce its foreign trade deficit. Several bad harvests, growing debt service requirements, a protracted Western recession and deteriorating terms of trade have strained Polish hard currency purchasing capabilities. Furthermore, Polish exports have grown more slowly than anticipated because many investments for export have not come into full production as planned. These conditions required austere corrective economic policies, including curbs on both investments and imports.

Under the plan for 1978, national income will rise by 5.4 percent but investment's share will be decreased to 24 percent, as compared to 27 percent in 1977. Industrial production will grow by 6.3 percent, a less ambitious goal than the 7.3 percent growth rate planned for 1977. Deliveries of consumer goods are expected to rise by 10 percent and services by 13 percent while monetary income will grow only 6.6 percent. The increased share of production for the consumer market is designed to absorb excess domestic buying power inflated by a rapid growth of wages in the last 5 years. Real wages this year will increase by 1.8 percent. The keynote of the 1978 plan is greater efficiency and productivity, savings in energy and materials, and efficient management of investments and production.

The plan continues to cut back investments in major projects while emphasizing agriculture, consumer goods, housing construction, transportation and energy. Production of capital goods is slated to grow at half the rate of consumer products and industries with export potential.

In the foreign trade sector, the annual plan envisages a minimum 10.3 percent growth in Polish exports. A major effort will be made to increase sales of manufactured goods and raw materials including coal, sulfur and copper. The trade deficit with the West decreased by 30 percent in 1977 and another 30 percent decrease is planned for this year. Trade turnover with the socialist countries will be increased to 53 percent of the total as compared to 51.1 percent in 1977.

Polish imports from abroad are slated to grow by only 3.9 percent, with priority given to raw materials and equipment needed to complete critical projects and further modernize the industrial base. However, austere economic policies and strict import guidelines should not deter foreign traders from pursuing business in Poland. Opportunities exist in the modernization and improvement of industries which supply the agricultural sector and in projects which expand food stocks. Polish officials point out that many opportunities exist for U.S. businessmen in modernizing other industrial sectors, for example the building and electro-engineering industries.

The Poles are actively seeking trade growth through conclusion of industrial cooperation agreements with U.S. firms. Potential projects include: transportation of coal by pipeline; expansion and modernization of the coal industry for energy and export earnings; production of packaging materials; pharmaceuticals; shipbuilding and marine technology.

During the seventh session of the Joint American-Polish Trade Commission held in December in Warsaw, four new commercial agreements were proposed and will be negotiated this year. They will serve as a guide for expanding U.S.-Polish commercial relations. In addition to agreements on Tourism, Economic and Commercial Information, Small and Medium-Sized Firms, and Economic and Industrial Cooperation, a Working Group on Industrial Cooperation will meet this spring.

Commerce Department sponsored technical sales seminars featuring frozen food technology, materials testing equipment, telecommunications equipment and meat and dairy processing equipment will visit Poland this year.

CHINA

Import Pace Stepped Up To Spur Modernization

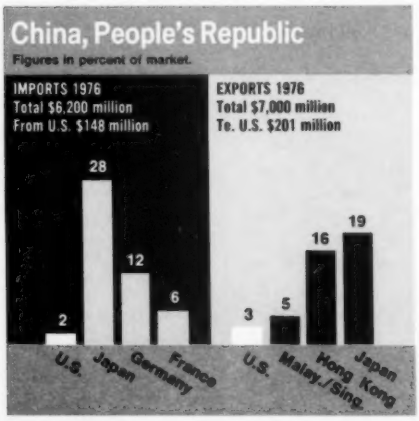
U.S. exports to China in 1978 should enter an expansionary phase, as American traders begin to benefit from China's stepped-up pace of imports in support of a vigorously unfolding campaign for economic growth and modernization. U.S. exports also will benefit from China's renewed entry into the American agricultural market after more than a year's absence. U.S.-China commercial relations will continue to develop within the framework of the Shanghai Communique and could show a marked improvement should significant movement toward overall political normalization occur.

China's post-Mao leadership has launched a broad program of social and economic reforms which will help fuel the drive for sustained rapid economic growth and an expanding foreign trade, reports John D. Phipps of the Bureau of East-West Trade. The economy can only be strengthened by the continuing series of important new policies now being implemented, including the granting of the first round of wage increases to occur in many years, the tightening up of industrial management and the restoration of discipline in the workplace and schools, and the new stress being given to the role of science, technology, and academic excellence.

The new leadership has also adopted a more flexible approach to foreign trade with a view to speeding up the acquisition of foreign technology and products necessary for rapid economic growth. An unprecedented series of national conferences calling together leaders of industry, agriculture, science and defense are directly disseminating the new directions China is taking to the grass roots level.

After a period of consolidation following the toppling of the "Gang of Four," initial success is now beginning to be achieved in the economy and foreign trade. The high point in the economy in 1977 was a rapid growth of 14 percent in industrial output, but overall expansion was less impressive due to the unexpectedly mediocre agricultural performance resulting from some of the worst growth conditions experienced since 1949. Significant improvements have occurred in the critical transport sector and port congestion has been reduced to more manageable proportions. With the achievement in 1977 of a second consecutive large export surplus, estimated at over $1 billion, China's foreign exchange difficulties have ameliorated considerably, and import growth, which had practically ceased in 1975 and 1976, has now resumed. Total foreign trade in 1977 increased by 12 percent, setting a new record.

U.S. exports to China in 1977 were roughly balanced among agricultural commodities, machinery, and industrial raw materials, and the level achieved moderately exceeded that of 1976 but remained disappointingly low. This drop in activity was due in part to the weakness of demand resulting from the political disruption attending the post-Mao transition, but with demand for goods in which the U.S. is competitive now picking up—oil field equipment, mining machinery, electronic computers, transport equipment, power generation equipment—the outlook for increased sales of these and other products this year is fairly good. The institutional framework of U.S.-China trade has continued to expand with the ongoing exchange of increasing numbers of U.S. and Chinese traders, technicians, and officials. More than 700 U.S. businessmen attended the Fall 1977 Canton Fair and conducted about $60 million worth of business.



CZECHOSLOVAKIA

U.S. Exports Decline, No Upturn Seen This Year

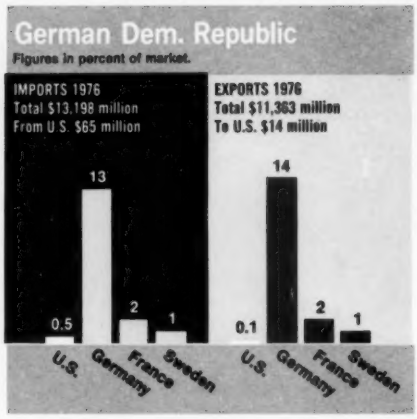
U.S. exports to Czechoslovakia declined in 1977 from the record level registered the previous year. The downturn is due almost entirely to fewer Czechoslovak purchases of American feedgrains, traditionally the principal U.S. export to Czechoslovakia. Reduced purchases are the result of an excellent harvest in Czechoslovakia and are expected to continue into 1978. As a result, U.S. exports to Czechoslovakia will remain stable at relatively low dollar volumes, reports Christine Lucyk of the Bureau of East-West Trade. Purchases of sophisticated machinery and technology will probably continue at about the same, or slightly lower, level as Czechoslovakia strives to boost growth rates while attempting to control its hard currency deficit with the West. Economic results for the first three quarters of 1977 reflect continuing economic difficulties. While two key sectors of the economy, engineering and chemicals, are growing at a rate sufficient to meet 1980 Plan goals, overall industrial output growth continues to decline from its level of previous years. Aging industrial plant, low labor productivity, and production bottlenecks are blamed for the continuing sluggish pace of the economy. To deal with some of these problems, Czechoslovak planners have introduced limited reforms in the price structure and industrial organization.

On the foreign trade front, Czechoslovakia has made some progress in the past year in curbing the overall rate of import growth and increasing the value of its exports. Its trade deficit with Western industrialized countries, however, appears to have worsened, while the balance of trade with other communist countries has improved markedly. To finance some of its import requirements in the West, Czechoslovakia is expected to continue a policy, begun in 1975, of cautious borowing in Western money markets. Western firms may also encounter growing Czechoslovak insistence on countertrade transactions as Czechoslovakia strives to reduce expenditures of hard currency.

The best prospects for Western sales continue to be in Czechoslovakia's priority development sectors and in products which will help solve the above-mentioned problems. Opportunities may also exist for energy-related processes and equipment, as increasing government attention is being given to development of energy resources.

Following successful participation at Czechoslovakia's chemical fair in 1977, the Commerce Department will sponsor a full-scale exhibition of chemical equipment at INCHEBA in June, as well as an exhibition of medical equipment at the Brno Fair in September. Technical sales seminars on physical test equipment and process controls are scheduled for spring.

With the opening in October 1977 of a new Business Facilitation Center, American businessmen will now have an operating base in Prague. The facility, at the main entrance to the American Embassy, is equipped to provide a site for firms to hold sales presentations and will also serve as office space for business visitors.



GERMAN DEM. REP.

Production Efficiency, Economic Growth Stressed

The German Democratic Republic (GDR) intends during 1978 to utilize more intensively its existing plant capacity and to consolidate the various investment projects already begun, Suzanne Porter of the Bureau of East-West Trade points out.

New investment this year will be heavily concentrated in energy and raw materials development, particularly in coal (lignite), metallurgy, potash, the chemical and petrochemical industry and geology. Over the longer term, the GDR plans to continue its interest in purchasing turn-key plant and equipment projects from Western, including U.S., suppliers. The GDR is increasing its focus on compensation trading (particularly buyback and counterpurchase) for large turnkey projects.

Continuing emphasis by the GDR on increasing production through technological progress and greater efficiency in the use of fuel and raw materials, will offer a variety of opportunities to U.S. firms trading with the GDR. This applies especially to those industries in which the GDR plans to maintain its efforts to raise output, such as the electronics, machine tools, and processing and heavy machinery industries. Other product areas that can be expected to provide export sales potential include mechanical engineering and rubber processing.

The 1977 harvest was considerably better than in the drought years of 1975 and 1976. However, the quality and size of the harvest for some crops, notably grains, was somewhat affected by heavy rains which fell during the harvest. The GDR is maintaining relatively high levels in its purchases of U.S. agricultural products, including grains, much of which continues to be transshipped through third countries. The GDR has expressed its intention to import annually some 1.5 to 2 million metric tons of U.S.-origin grains for at least the next several years.

The Commerce Department has scheduled a Business Development Office catalog show at the 1978 Leipzig Spring Fair, March 12-19, featuring the U.S. materials handling industry. The Department also plans to mount an exhibition at the 1978 Leipzig Fall Fair, Sept. 5-12, featuring equipment and technology for chemical manufacturing and processing. For further information on the exhibition at the fall fair, call the Bureau of East-West Trade, on 202-377-2802.

In December, Commerce sponsored a Technical Sales Seminar in the GDR on electrical energy systems, and plans one in June for process control equipment.

Preliminary trade figures for the first 11 months of 1977 show that U.S.-GDR two-way trade dropped by almost a third, from $73.7 million during the period in 1976 to $48.6 million in 1977. U.S. exports fell 44 percent, from $61.1 million to $34.5 million. Over 90 percent of the decrease occurred in U.S. exports of agricultural commodities. However, since U.S. agricultural sales to the GDR remained relatively high during 1977, much of the drop may be due to an increase in transshipments through third countries. Transshipments do not show up in U.S. statistics reporting bilateral trade. In 1976, about 86 percent ($313 million) of U.S. agricultural exports to the GDR were transshipped.

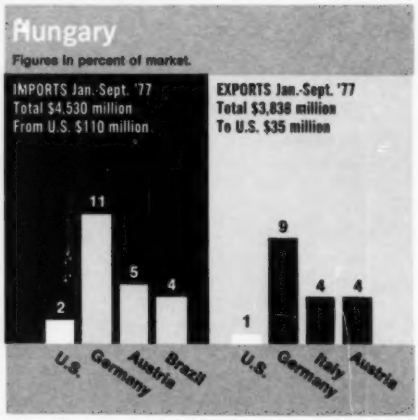
HUNGARY

Prospects Good For Growth Of Trade With United States

Continued improvement in bilateral relations and increased U.S. exports in 1977 create a positive atmosphere for the further expansion of U.S.-Hungarian trade in the current year. U.S. firms should find numerous market opportunities in Hungary in several industrial sectors, Mona F. Levine of the Bureau of East-West Trade reports.

Secretary of State Cyrus R. Vance led a delegation to Budapest Jan. 6 to return the historic Crown of Saint Stephen and the coronation regalia to the Hungarian people. The return of the Crown is an indication of the general improvement in overall bilateral relations that has occurred over the last few years. After his meetings in Budapest, Secretary Vance also noted that discussions have begun with Hungarian officials concerning the extension of Most-Favored-Nation tariff status to Hungary. The lack of MFN status has been a major obstacle to bilateral trade growth.

Despite the current absence of MFN status, trade turnover in 1977 surpassed that of the previous year. U.S. exports for the first 11 months of 1977 increased 24 percent over 1976. While superphosphate fertilizer, soybean oilcake and meal, tractor parts, cattle hides and unworked glass continued to be major sales items, significant shipments of corn, dairy breeding cattle, glass working machinery, computer peripherals, fur skins, and haying machine parts also added to the export growth. U.S. imports from Hungary for January—November dropped slightly as compared to the previous year.



Hungary's continuing commitment to develop trade with the United States, with or without MFN status, was demonstrated by several important actions in the fall of 1977. In September, the Hungarian National Bank opened a representative office in New York to facilitate development of financial relations between the United States and Hungary. State Secretary of Planning Istvan Hetenyi led a high level delegation of government, banking and industry leaders to the United States in November for a series of promotional seminars, during which the Hungarians acquainted the U.S. business community with the wide range of commercial opportunities that exist in Hungary.

Hetenyi noted a number of sectors in which Hungary is stressing development. The two priority areas of raw material development are the aluminum and petrochemical sectors. Bauxite mining and high grade and innovative types of aluminum processing offer opportunities for cooperation. In the petrochemical industry, the large scale production of ethylene, propylene and ammonia is under way. Improved technology is sought in this field. Hetenyi pointed out that opportunities for cooperative ventures exist as well in the precision engineering, electrical, light and pharmaceutical sectors. Development plans for 1978 and the next few years emphasize increased production in the following industries: agricultural machinery, communications and other equipment for oil and gas pipelines, machine tools, medical instruments, ball and roller bearings, and telecommunication equipment.

The Commerce Department plans to repeat its participation at AGROSMASEXPO '78, the specialized Hungarian agricultural fair to be held in April.

BULGARIA

New Opportunities Exist To Revitalize Trade

Total U.S.-Bulgaria trade is not expected to surpass $45 million during 1977, in contrast to the record 1976 level of $70 million, according to Michael J. Hegedus of the Bureau of East-West Trade. During the first 10 months of 1977, U.S. exports fell over 45 percent and U.S. imports, over 25 percent, compared to the same period in 1976.

The sharp decline this past year is due largely to the drop in U.S. exports of grain and Bulgarian exports of tobacco, long the major components of U.S.-Bulgarian trade. Despite this decline and Bulgarian efforts to reduce hard currency deficits, Bulgarian officials continue to express interest in advanced U.S. agricultural and industrial technology and equipment.

Several recent events are indicative of Bulgaria's heightened interest in expanding trade in the agricultural-related areas. The first was the large, unexpected turnout during the Commerce Department-sponsored Herbicides and Pesticides Technical Sales Seminar in June. Following the meeting the U.S. firms were able to pursue new and more direct contacts and potential customers. The Bulgarian participation was indicative of the strong interest in agricultural chemicals in general and pesticides in particular.

Secondly, Vulkan Shopov, Chief of Agriculture of the Central Committee of the Bulgarian Communist Party, visited the United States for a month this past summer under the International Visitors Program. Mr. Shopov visited several specialized farms, universities specializing in agriculture, agricultural experimentation stations, and manufacturers of advanced agricultural machinery. He also met with various U.S. government officials to discuss expansion of U.S.-Bulgarian trade in the agriculture area.

Additionally, the new Bulgarian Commercial Counselor in New York has enumerated several areas in which U.S. and other Western industrial cooperation is sought. These include the machine building (the most significant sector of the Bulgarian economy), chemical production, metallurgy, and construction industries. Previously mentioned plans for an integrated metallurgical complex, including a steel mill and various foundries—areas where Western expertise could be needed—are receiving renewed attention.

The Bulgarians also have stated an interest in a variety of U.S. technology and equipment including construction of prefabricated houses, and deep-water port facilities in the Black Sea. They also wish to transform their domestic electronic and shoe industries into more export-oriented industries and, as such, may turn to the West for advanced equipment and production licenses for use in their own plants.

Bulgaria is continuing its efforts to reduce hard currency expenditures and deficits. As a consequence, U.S. firms wishing to enter the market may be called on to accept heavier countertrade agreements.

Planned U.S. government-sponsored trade promotion events in Bulgaria for 1978 will focus on those areas in which U.S. firms have a definite competitive advantage and can capitalize on the above-mentioned trade opportunities. These include technical sales seminars in chemical production equipment, process controls, and meat and dairy processing equipment. In addition, the United States will stage an exhibition of general industrial and agricultural equipment at the September Plovdiv International Trade Fair.

Bulgaria

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Bulgaria:

U.S., Jan.-Nov. 1977, $22 million
Germany, Jan.-Sept. 1977, $188 million
France, Jan.-Sept. 1977, $96 million
Italy, Jan.-Aug. 1977, $58 million
Japan, Jan.-Sept. 1977, $41 million
U.K., Jan.-Oct. 1977, $37 million

U.S. imports from Bulgaria, Jan.-Nov. 1977, were $18 million.

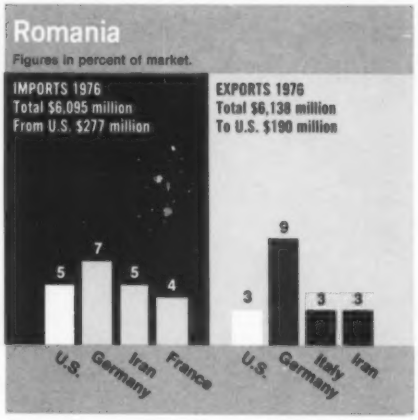
ROMANIA

Two-Way Trade Sets Record; Chief U.S. Export Is Coal

Statistics through November indicate that 1977 will be another record breaking year for U.S.-Romania trade, reports Romania desk officer Peter Hanley. With two-way trade at slightly more than $444 million, it seems certain that last year's record will be easily surpassed and that the $500 million mark may be reached. For this 11-month period U.S. exports to Romania exceed U.S. imports from Romania by approximately $12 million.

The leading U.S. export is bituminous coal. As in past years, however, the list of major U.S. exports is dominated by agricultural products, such as soybeans, cattle hides, unmilled wheat, and yellow corn. While still small in comparison to agricultural products, exports of manufactured goods to Romania are increasing and should surpass the level of $49.3 million established in 1976.

Fuel oil continues to be the major U.S. import from Romania and when combined



with gasoline these two commodities account for 32 percent of total U.S. imports from Romania. Romania is seeking to diversify its sales to the United States, however, and U.S. imports of Romanian manufactured goods have risen since 1975.

On Nov. 2-3, the Fourth Session of the Joint American-Romanian Economic Commission met in Washington to discuss trade issues between the two nations. Commerce Secretary Juanita M. Kreps headed the U.S. delegation while Deputy Prime Minister and Minister of Foreign Trade and International Economic Cooperation Ion Patan led the Romanian side.

Romania provided several lists of cooperation projects for which it is seeking participation of U.S. firms, including such projects in third countries. During the Commission meetings, the Romanians singled out the petrochemical, fertilizer, combustion engineering, and electronics sectors as areas in which there are possibilities for sales of U.S. equipment. They also provided a list of equipment and machinery that Romania is interested in procuring from U.S. suppliers. Information regarding these various cooperation and import lists can be obtained from the Romania Desk, Room 4324, Bureau of East-West Trade, U.S. Department of Commerce, Washington, D.C. 20230.

Other topics discussed during the Commission meeting included exchange of economic information, availability of financing, and business facilitation measures. The commitment of both countries to diversify the structure and to expand U.S.-Romanian trade to $1 billion by 1980 was reaffirmed. Both countries also supported the extension of the U.S.-Romanian Trade Agreement which comes up for renewal in 1978. The Commission will meet next sometime this year in Bucharest.

The Bureau of East-West Trade will sponsor technical sales seminars on chemicals in March and on materials test equipment in April. At the Bucharest Fall Fair in October a commercial exhibition on industrial electronics will be held, followed in November by a technical sales seminar on industrial welding equipment.

NEAR EAST-NORTH AFRICAN COUNTRIES MOVE AHEAD WITH DEVELOPMENT PLANS

U.S. Business Is Finding Large, Diverse Markets

Since the oil price rise in 1973, U.S. exports to the Near East-North African countries have risen over 240 percent to a total nearing $12 billion in 1977. The total is expected to reach $13.6 billion this year, an increase of 13 percent over last year. This projection is based on the continued high level of economic activity throughout the region and reflects plans to spend billions of dollars for further development, according to Kathleen Keim of the Bureau of Export Development.

The other key element in our trade with the Near East and North Africa is the record 48 percent rise in U.S. imports from the area during 1977, to a total approaching $20 billion. Although the import growth rate is not expected to continue at this level during 1978, the United States, with its heavy imports of oil and gas, is again expected to have a substantial trade deficit with the region. Even without an oil price rise this year, these petroleum sales will provide the area's oil exporting countries with very sizable revenues with which, in turn, to purchase imports of goods and services.

Two examples of this phenomenon, Algeria and Libya, are virtually unknown markets to many American firms but are attractive based on their greatly expanded sales of oil and gas to this country. Some American companies feel inhibited from approaching these markets by the fact that both countries have socialist governments as well as traditional ties with European suppliers. Even when these drawbacks are taken into consideration, however, the U.S. market share is miniscule compared to the potential.

Our largest customers in the area, Saudi Arabia, Iran, Israel and Egypt, accounted for $8 billion of the $12 billion total exports in 1977. The U.S. market share in these and other countries in the Near East, which is already impressive, could improve over the long term given diligent, aggressive pursuit of the advantages enjoyed by products "Made in USA." However, competition is intense and during 1977, the U.S. market share appears to have slipped somewhat in several important markets including Iran and Israel.

The demand for a variety of products will grow as economic development in the area proceeds with greater sophistication. Government leaders have become more realistic concerning the rate at which oil revenues can be absorbed into their economies. The planners are taking a harder look at the strains rapid development has put on infrastructure, which has resulted in rising costs. Projects are being re-evaluated in terms of economic viability and the effects on local values and the environment.

In using surplus oil revenues, officials have exhibited caution and a sense of responsibility. According to a recent Commerce Department study, the oil exporters have not bought large chunks of U.S. industry as some had forecast. Near East direct investment in the U.S. was found to be relatively small and mostly in real estate. Iranian and wealthy Arab nations also invest in less developed countries and continue to be generous with grants and loans to assist in economic development of the third world.

Diversified markets ahead

As these trends progress, U.S. business will find a larger, more diverse market for goods and services. Processed foods are selling well in affluent markets such as Kuwait and Saudi Arabia; convenience foods are becoming more popular in Iraq where women are seeking employment outside the home. The United Arab Emirates, which had several major high-rise fires last year, is seeking fire safety items, chemicals to fireproof existing structures and fire resistant construction and decorating materials. Industrial safety equipment directed toward oil producers and oil service companies is also in demand. Entrepreneurs in the Gulf States have established U.S. hamburger and fried chicken chains, and interest in additional franchising opportunities is growing. Local businessmen in the United Arab Emirates, Oman, Kuwait and Bahrain are anxious to pursue franchising possibilities for fast-food operations (everything from ice cream to pizza), car washes, laundromats and hotels. In addition, demand will remain strong for traditional exports to the region such as bulk agricultural products, building materials, and equipment for agriculture, construction, food processing, communications and electric power.

After several years of fast-paced development focusing on large-scale industrial and infrastructure activities, the Government of Qatar found itself financially overextended in 1977. As a result the government intends to complete projects already under way but reassess its future spending plans. Although some programs may be shelved, forward movement will not be curtailed in providing housing, medical services, schools and utilities. Industrialization will also proceed, but the focus will turn to light industry such as plastics, building materials and consumer goods. The government, which has generated most of the economic activity in Qatar thus far, is encouraging private participation in these ventures through low-interest loans and exemption from customs duties. The Ruler has also expressed a desire to obtain greater private American cooperation in Qatar's industrialization.

Without oil revenues or substantial exports of any kind, the Yemen Arab Republic's 1977/78 budget is double that for the previous fiscal year. The budget plus projected spending by government-owned corporations brings total allocations in the public sector to over one billion dollars. Development expenditures account for over 40 percent of total government spending compared to under 20 percent during the last fiscal year. Yemen's economic performance through 1980 depends on its ability to meet manpower and material requirements, not on its ability to secure financing. Government revenues will accrue principally from import duties, remittances from Yemeni workers employed in neighboring countries and aid from Saudi Arabia and other Arab donors.

The effect of the oil boom in Bahrain is reflected in financial overextension by banks and other firms, especially in the construction sector, land speculation and inflation. Local observers indicate that the unrealistically high growth rates of 50-75 percent in such areas as imports, bank loans and money in circulation dropped to a more sustainable 20 percent during 1977. In an attempt to provide a further brake to the economy by absorbing excess liquidity, and to provide additional government income, officials intend to issue up to $75 million in development bonds over the next two years. The government has also issued an offshore companies' law to enhance Bahrain's attractiveness as a regional commercial location. The law, which applies to companies operating in other countries from Bahrain, along with the free port area, will allow firms to establish regional assembly, maintenance and warehousing facilities in Bahrain. The country already offers excellent banking and transportation facilities, a relatively liberal business and social environment and improving hotel, office and residence accommodations.

Business activity has been slowly returning to normal in Lebanon after the 1975-76 civil war. The port and airport are back in operation and many businesses and banks have reopened. However, due to the unresolved political situation, business confidence has not been completely restored, and the private sector has been reluctant to make large investments. Although many reconstruction projects are under way, the expected economic revival has not yet materialized. Until the government can insure security and stability, the recovery will continue to be uneven. U.S. exports to Lebanon, which dropped from $400 million in 1975 to $48 million in 1976, showed some resurgence and climbed to over $100 million in 1977.

Jordan, historically a labor surplus

country, is now faced with a labor shortage due to the increased economic activity in the Near East. Because many Jordanians have obtained employment in the oil-rich Gulf States, the lack of some skills will impact on the ability to implement Jordan's Five-Year Development Plan. On the other hand, remittances from Jordanians working abroad help to overcome the country's chronic and growing trade deficit. To take further advantage of the region's economic importance, the government is promoting the country as a regional business center. Currently, 140 firms, of which 20 are American, have located regional headquarters in Amman, the capital, due to favorable legislation. Although some firms have experienced delays in obtaining telephone and telex services, most are reportedly happy there.

Many observers believe that Oman has the potential to become one of the most significant mineral producers in the Arab world. Chromite and anthracite reserves have been estimated as high as five million and ten million tons, respectively. Asbestos ore deposits of eight to ten million tons have been little tapped thus far. There is also a good possibility that major phosphate deposits exist in the central desert. Saudi Arabia has agreed to finance the Sehar copper project, and the Omanis have decided to proceed with construction of a smelter as well as concentrator facilities to process the ore.

Syria's economic development slowed during 1977 due to reduced financial aid from the Arab nations, the cost of military intervention in Lebanon, loss of revenue from the closed Trans-Syrian oil pipeline, and the effects of a cholera epidemic and an anticorruption campaign. Despite these short-term difficulties, Syria remains a good potential market for U.S. exports of goods and services. Economic planners have reduced in scope or delayed implementation of many projects in the 1976-80 development plan, but investments during the period are still projected to reach $10 billion. If the flow of aid money from oil-rich neighbors during 1978 reaches its previous level, economic development should accelerate.

The Arab boycott of Israel poses an element of uncertainty in U.S. trade relations with countries of this area. The Export Administration Act of 1969, as amended by the Export Administration Amendments of 1977, declares it to be the policy of the United States to oppose foreign boycotts of friendly countries, to encourage U.S. persons to refuse to take actions which have the effect of furthering or supporting such boycotts, and in specified cases, to prohibit U.S. persons from taking such actions. Department of Commerce implementing regulations pursuant to the Export Administration Amendments of 1977 took effect Jan. 18. It is not possible at this time to assess the potential trade impact of these measures.

ISRAEL

Quickening Anticipated In Economic Activity

Israel announced a series of sweeping measures last fall aimed at reducing government control of the economy and lessening the country's heavy dependence on foreign aid by improving the balance of payments. The reforms are designed to provide added stimulus to the country's already impressive export performance while braking the growth of imports, observes Joe Lill of the Bureau of Export Development. Still, with an anticipated quickening in Israel's economic activity, imports as well as exports are expected to increase this year and purchases of civilian goods from the United States should exceed their estimated 1977 level of about $950 million.

The decision to float the Israeli pound figured prominently in the "New Economic Policy," and the pound quickly depreciated from approximately 10.40 to 15.50 to the dollar (44 percent). Foreign currency controls were greatly relaxed and important changes were made in the taxation of imports. The fixed 15 percent import surcharge was abolished while the value added tax, which is assessed on imports as well as on domestic purchases, was raised from 8 to 12 percent. Ad valorem import tariffs over 12 percent were generally lowered by 20 percent but many specific duties were raised by 25 percent.

Last year saw only a modest improvement in Israel's economy with real GNP growth estimated at 1.7 percent, compared with the 0.9 percent growth in 1976. However, a 4.5 percent rate is predicted for Israeli fiscal year 1978 (ending March 31, 1979). The inflation rate last year probably exceeded the 38 percent rise of 1976 and little if any improvement is likely this year.

U.S. exports to Israel posted a 7.4 percent gain in the first eight months of 1977 over the like period of 1976. This was a disappointing performance during a period when Israel's imports worldwide rose by 14 percent and purchases from the European Economic Community shot up by 23.5 percent. While the U.S. with 21 percent of the market remains Israel's number one supplier, the share of the EEC countries together is over twice as large. Under the Israel-EEC free trade agreement, tariffs on manufactured goods from the Common Market are being lowered in stages and will be eliminated by 1985. Hundreds of industrial products from the EEC already enjoy advantageous tariff rates in Israel and this competitive edge will be increasingly felt as further reductions are made under the agreement.

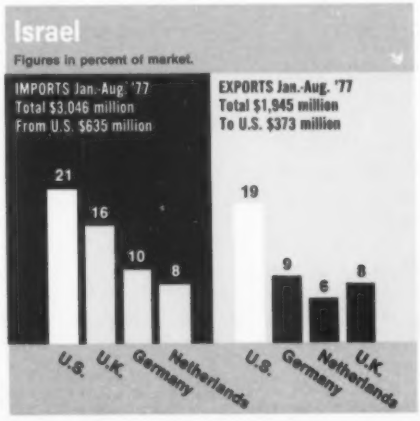
Most Israeli manufactures have entered the Common Market duty-free since mid-1977. This preferential treatment of Israeli products in Western Europe, plus the beneficiary status of Israel under the Generalized System of Preferences of the United States, is contributing to the rapid growth of Israel's export industries. It is these industries that also offer the most promising markets for United States sales to Israel.

Manufacturers want quality equipment that will enable them to lower export costs by producing more efficiently. Electronic production, test equipment and components should continue to sell well to the basically U.S.-oriented electronic industry. Other products with excellent sales potential include computers and peripheral equipment, engines and mechanical power equipment (primarily for the electric utility, shipbuilding, manufacturing and construction industries), metalworking equipment, and health care equipment.

American economic assistance to Israel is continuing at high levels. Economic aid for U.S. fiscal year 1978 totals $785 million, of which $485 million is earmarked to finance commodity imports (mostly farm products) from the United States. U.S. military aid totals $1 billion, as it did in FY 1977.

Israeli importers are making excellent use of the financing provided through the Cooperative Financing Facility (CFF) of the U.S. Export-Import Bank. Well over 600 loans for American products, at an average contract price of $250,000, have been obtained from the Israeli banks participating in this program. In making credit sales to Israel, U.S. exporters should ask their customers to check with their local banks regarding possible financing under the CFF.

The American Embassy in Tel Aviv, which is equipped with the same kind of exhibit display equipment used at the U.S. trade centers abroad, has been active in sponsoring highly successful small exhibitions and seminars organized by U.S. firms and their Israeli agents. The Embassy continues to schedule and promote such "mini trade shows" as opportunities arise to assist the marketing efforts of American firms in this manner.



EGYPT

Imports From U.S. Expand Despite Payments Deficit

Although Egypt still suffers from a severe balance of payments deficit, the huge inflow of foreign aid from the United States, the World Bank, and friendly oil-rich Arab states is sustaining ever increasing imports of U.S. agricultural, intermediate, and capital goods. During 1977, U.S. exports to Egypt are estimated to have grown some 20 percent to nearly $1 billion, with prospects for further substantial growth in 1978.

The United States maintains its position as Egypt's largest supplier primarily due to the U.S. role as an agricultural product exporter, Kenneth R. Button of the Bureau of Export Development points out. About 60 percent of U.S. exports to Egypt are agricultural commodities of which the most important are wheat, wheat flour, tobacco, and edible oils. With its cultivable land resources effectively limited to a thin strip along the Nile River, Egypt will continue to rely heavily on imported food for its rapidly growing population, currently estimated at 40 million.

U.S. industrial exports also have been expanding rapidly although U.S. firms are facing stiff competition from Western Europe and Japan. The leading U.S. industrial exports have been transport, textile, electric power generating, and construction and mining equipment and machinery. Because Egypt's population, although very large, is still relatively poor, it is not yet a strong market for U.S. consumer products. As Egypt's general economic development progresses, however, Egypt will increasingly realize its long-term potential as the largest export market in the entire Near East.

A key variable in Egypt's long-term development remains the question of a permanent peace settlement. Of the potential economic benefits of a settlement, the freedom of national leaders to focus their full attention on the tasks of reorganizing and developing the economy could be of greater immediate importance than the direct reduction of military expenditures. During 1977, under the standby agreement with the International Monetary Fund, Egypt began a series of important economic reforms to restrain the chronic balance of payments and budget deficits and to reintroduce market forces into the determination of domestic prices. President Sadat had previously initiated a number of measures to liberalize the economy under what he called the "open door" policy. With or without a permanent peace settlement, failure to make meaningful progress in these reforms will limit Egypt's ability to effectively achieve its development goals.

Egypt's 1978-82 Five-Year Plan, which replaces the abandoned 1976-80 plan, does not present a highly integrated development program, but it does represent an initial concerted effort to coordinate the goals and investment needs of the economy's various sectors. The plan emphasizes government investment on vital infrastructural development as well as housing. The transportation and telecommunications systems will receive special attention because of their general impact on overall development. Although large government expenditures will be made to renovate Egypt's aging industries, particularly textiles, most new projects are to be financed by private and foreign investors.

Egypt has strongly encouraged foreign investment since the initiation of the "open door" policy in 1974. Although to date the desired investment inflows have not appeared, the 1977 revision of Egypt's investment law as well as increased prospects for peace have contributed to optimism that a number of major investment projects may get under way during 1978.

At least through the 1978-82 plan period Egypt will continue to be dependent on large-scale foreign assistance. Next to aid from the friendly oil-rich Arab states, the U.S. foreign aid program is most important. In FY 1977, the United States allocated Egypt $912 million on various forms of economic assistance and is providing slightly more for FY 1978. U.S. aid finances agricultural and industrial product imports, technical assistance, and major capital development projects. Among the new capital projects are port development, food storage and distribution facilities, telecommunications expansion, and plants for cement, glass, and railway cars. The U.S. aid program has provided a major boost to U.S. exports since all procurement for it must be sourced in the United States.

In competing for commercial rather than aid financed sales, U.S. firms should be aware that Egypt's shortage of foreign exchange makes the supplier's ability to provide credit an important factor in assessing the attractiveness of a bid. U.S. exporters are also reminded that Egyptian law now requires all foreigners to retain an Egyptian commercial agent when selling to the government.

An effective vehicle for U.S. firms to enter the Egyptian market is participation in the U.S. pavilion at the Cairo International Fair held annually in March. In 1978, the Commerce Department also will sponsor a mining equipment trade mission in February and a food processing equipment video/catalog exhibition in October.

Egypt

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Egypt:

U.S., Jan.-Nov. 1977, $896 million
Germany, Jan.-Sept. 1977, $411 million
U.K., Jan.-Oct. 1977, $265 million
France, Jan.-Sept. 1977, $261 million
Japan, Jan.-Sept. 1977, $259 million
Italy, Jan.-Aug. 1977, $220 million
USSR, Jan.-Sept. 1977, $199 million

U.S. imports from Egypt, Jan.-Nov. 1977, were $168 million.

ALGERIA

Prospects For U.S. Exports In 1978 Appear Favorable

Algeria remains determined to maintain its drive toward economic development, according to Claude Clement of the Bureau of Export Development. Numerous opportunities exist for U.S. companies engaged in design, engineering and the manufacture of high technology products. U.S. exports to Algeria surpassed $500 million in 1977, and an increase is projected for 1978, based on Algeria's growing food import needs and continued growth in its hydrocarbon export earnings.

The 1973/74 increases in oil prices and the producing countries' ability to maintain the high price of oil have made hydrocarbons the backbone of the Algerian economy. The share of oil and natural gas in total GDP, 15 percent in 1970, has more than doubled and is expected to increase further as exports of liquefied natural gas (LNG) begin to grow rapidly in the years ahead. Production of crude oil and condensates has been close to 50 million metric tons a year for several years and approached 60 million in 1977. Algeria's low-sulphur, light crude is located close to major markets and commands a premium price. LNG exports will become a major factor in Algeria's balance of payments as new liquefaction facilities come on stream this year. Sonatrach, the state hydrocarbon entity, projects LNG exports at about 30 billion cubic meters in 1980, with additional capacity coming on stream in the following years. At 1976 prices of over $1.30 per million BTU's, the 1980 projection represents some $1.5 billion in potential export earnings that year. American firms have contracted for about half of Algeria's planned eventual LNG output of some 75 billion cubic meters a year.

While planning to increase exports of crude oil and LNG, Sonatrach also expects to develop its refining capacity in order to export substantial quantities of refined products and liquefied petroleum gas (LPG). Important investments in petrochemicals are also planned or under way.

Algeria is also seeking industrial development oriented toward the establishment of new industries to alleviate unemploy-

ment, lessen dependence on imports, and exploit non-petroleum resources. The greatest potential for U.S. firms involves consultancy or other contract services with Algerian Government companies or ministries.

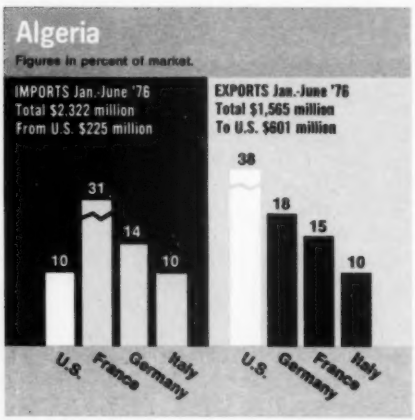
Government tenders typically favor agreements with provision for the training of Algerian workers. These contracts also stipulate that the contractor must remain on the job until the plant is operating at a specified capacity. Particular opportunities lie in the areas of communications equipment, transport equipment, and housing and medical infrastructure projects.

Although Algeria's agricultural sector has excellent potential, it has been neglected in past years in favor of industrial projects. Therefore, with a rapidly growing population, imports of agricultural products are growing rapidly. However, new importance is being placed on agricultural development. For example, Algeria is erecting a 950-mile-long "green barrier" of trees to protect and expand the agricultural zones of the north against the gradual advance of the Sahara desert. This massive undertaking, which will take 20 years to complete at a cost of $100 million per year, will triple Algeria's 9 million hectares of cultivable land. The project will entail sizable expenditures for irrigation equipment, piping and the construction of wells and canals.

Designation of 1978 as a year of pause in national planning, with the next four-year plan to begin in 1979, is designed to correct distortions in the economy that were caused by the recent emphasis on heavy industry. The bulk of the projected increase in capital expenditure over the 1979-82 period will be for non-industrial sectors, especially transportation, education and training, housing, infrastructure and regional development. The petroleum and gas sector will still absorb the largest share of total investment, as top priority continues to be placed on construction of production facilities for liquefied natural gas.

American firms will find it necessary to maintain regular contact with Algerian officials in the pursuit of any substantial project, because local agents or representatives are forbidden by Algerian law.

Activities to be sponsored by the Department of Commerce this year include sales seminars on materials handling equipment in June and electrical energy systems in October.



IRAN

Reduced Growth Foreseen; Competition Has Intensified

Restrictive government economic policies and a temporary peaking of oil revenues in 1978 will mean another year of modest growth for Iran, according to Michel F. Smith of the Bureau of Export Development. While there has been a strong comeback in American sales of grain and vegetable oils in recent months, the United States appears to be suffering a gradual erosion of its market position in the all-important machinery and transportation equipment sectors. For these reasons, U.S. exports to Iran in 1978 are expected to rise only marginally above the $2.6 billion level reached last year.

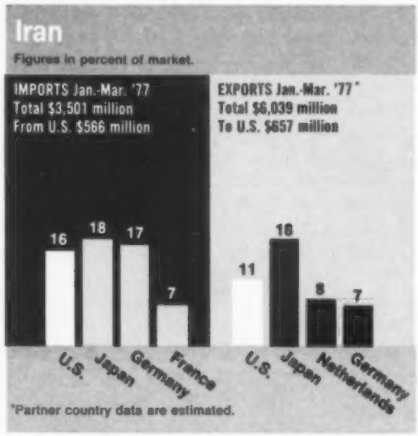
The Iranian market is becoming increasingly competitive, as European and Japanese suppliers, particularly suppliers of capital equipment, step up their marketing activities. A Commerce Department survey of the Iranian economy concludes that imports of capital equipment in 15 major sectors, which totaled just over $5 billion in 1975, will grow to more than $9.4 billion by 1980. Although U.S. suppliers accounted for nearly 28 percent of the 1975 figure, the survey points out that this share is dropping and could fall below 18 percent in 1980 due to increasingly sharp competition from non-U.S. suppliers. In the course of interviews conducted for the survey, many instances were cited where American companies lost important sales opportunities due simply to failure to follow up on genuine leads and direct inquiries. Other business was lost because firms failed to tailor sales packages to the needs of Iranian buyers.

Iran is currently running surpluses in both its current and capital accounts and is keeping its official gold and foreign exchange reserves above the $10 billion level. Thus, Iran continues to enjoy a top credit rating in the Eurodollar market. With import payments (now over $15 billion a year) and payments for engineering and other services (some $3.5 billion a year) growing more rapidly than oil revenues (about $21 billion last year), Iran will turn increasingly to external borrowing and supplier credits to maintain a rapid pace of development.

Iran's long-term efforts to shift major reliance from oil revenues to non-oil export earnings thus far have been extremely disappointing. During the six-month period ending Sept. 22, 1977, Iran's non-oil exports contributed $197 million to the country's current account, or almost 8 percent below the figure for the same six-month period a year earlier. Low productivity of labor, due in part to a critical shortage of trained supervisory and middle-management personnel, is perhaps the most serious obstacle to Iran's emergence as an industrial power, a goal which the Shah is determined to reach within the next two decades.

Government changes last fall signaled a shift away from unbridled economic growth in favor of policies designed to consolidate the country's impressive economic gains of the past several years and to lay the foundation for future industrial growth. There is increased recognition among top officials of the need for "more balanced" development, "absorbable" growth rates, elimination of physical bottlenecks (i.e., housing, transportation, electricity, etc.), manpower development and training, and price stability without the disruptive effects of rigid controls. While Iran has largely recovered from the severe financial and logistical problems that accompanied the 1974/75 boom, inflation has yet to be brought to heel, and the government continues to postpone many long-awaited projects in an effort to minimize inflationary pressures. Most businessmen are pursuing a wait-and-see attitude with regard to new investment and equipment purchases as they seek clarification of such key questions as pricing policies, taxes, interest rates and credit. The biggest question mark has to do with the Sixth Development Plan, now only two months away. Details have not yet been released, nor is anything yet known about its major objectives.

Despite the current slowdown in business activity, which may adversely affect this year's trade prospects, Iran remains one of the biggest markets in the Near East for a wide variety of agricultural products, consumer goods, and industrial raw materials and equipment. Patience and persistence can pay tremendous dividends



for American companies willing to put forth the effort to gain a foothold in this important market. An excellent introduction to the Iranian market can be made by taking advantage of the facilities offered by the U.S. Trade Center in Te' .an. The 1978 promotion calendar includes solar energy technology (April), warehousing systems (June) and medical equipment (November).

SAUDI ARABIA

Our Top Near East Market Remains On Growth Cycle

Plans for development of the Saudi Arabian economy make it the most important market for U.S. business in the Near East. Total 1977 Saudi imports are estimated at $14 billion, of which 22 percent came from the United States, reports Peter Edmonds of the Bureau of Export Development.

The $142 billion Five-Year Development Plan which is the government's blueprint for the economic and social development of the Kingdom has been operative since 1975. Although there has been slippage in implementation of the Plan, 1977 saw substantial progress which, in turn, stimulated the private sector in the areas of supporting services such as catering, transportation and housing. The Plan when completed should transform the Kingdom of Saudi Arabia into a modern state, with a complete social and industrial infrastructure based on processing of petroleum and natural gas.

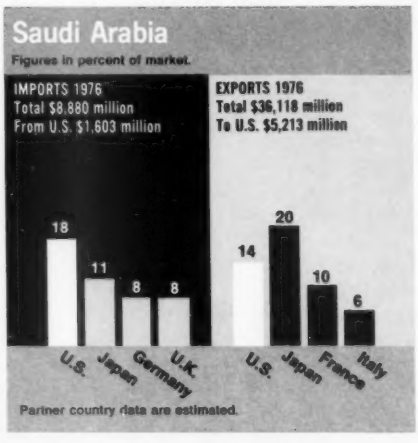
One example of this type of growth will be an industrial complex located at the port of Jubail on the Gulf, where a small fishing village will be transformed into a modern city of 125,000. The complex, which will consist of a petroleum refinery, a petroleum chemical complex, an aluminum smelter and a steel smelter, is estimated to cost $30 billion. A similar city will be built at the port of Yenbo on the Red Sea. There, however, the emphasis will be on production of chemical fertilizers. These two cities will be linked by a dual pipeline (one for natural gas, the other for petroleum), with the fertilizer industry being fed from the current Eastern province oil fields. The gas line will transport the vast amounts of natural gas now being flared off. This project is currently estimated to cost $13 billion.

Other promising opportunities in the construction field exist for building materials, construction equipment, and other building-related products, since under the Five-Year Plan $96 billion is allocated for construction. Saudi construction companies have exhibited strong interest in acquiring equipment and management services for prefabrication of various building components. Strong markets also exist for heating, air-conditioning, plumbing and interior finishing components. Construction equipment, including earth-movers, cranes, fork lifts, cement batching units and on-site generators, should continue to enjoy strong sales to Saudi and foreign construction companies. A key factor in securing sales of these products will be the availability of spare parts and adequate in-country service.

Also, the market for electrical generating equipment, and electrical components such as wire, transformers, and switching equipment, is strong. The Saudi Government is rapidly consolidating existing equipment with a view toward development of a national power grid. In addition to the sale of equipment, there are opportunities for U.S. companies to form joint ventures with Saudi firms for the construction of local and regional power systems. Training and management capability will be essential in these ventures.

Water resources continue as an important factor in development of the Kingdom. With little available surface water, the Saudis must desalt sea water along the coasts, and undertake deep well drilling in the interior. This critical resource creates a market for all types of water treatment systems ranging from large units capable of supplying the needs of a city of 125,000 to small units capable of servicing an individual hotel or hospital complex. The Saudis are showing great interest in the recycling of water for use in agriculture and irrigation, thus creating markets for water metering and distribution systems. To assist firms in developing this market, the Department of Commerce has scheduled a water resources trade mission to Saudi Arabia and Yemen in June.

The continuing expansion of the Saudi communication system is producing opportunities for sales of products ranging from microwave equipment to office telephone systems. Electronic data processing is becoming increasingly important as the demand for information, coupled with a shortage of trained clerical personnel, forces greater reliance on technology. Software systems and training, and desk top computers which can handle simple inventory and payroll functions, are in demand.



The government's program to expand hospital and health care facilities will create a wide range of opportunities for the sale of medical services and equipment, especially "disposable items" and pharmaceuticals. The near total lack of locally trained medical personnel dictates that the approach to health services be on a turnkey basis with the contractor filling positions from the janitor to the head of surgery.

The expansion of the Saudi market reaches to consumer goods as well. Saudi Arabia, due to its large expatriate community and a growing middle class with both the money and time to enjoy life, constitutes a strong consumer market for quality soft and durable goods. Foremost in the consumer market are household furnishings, ranging from large and small appliances such as refrigerators, stoves and washing machines (especially those which conserve water and electricity) to rugs, drapes, floor coverings and furniture. A parallel need exists for office furniture and furnishings. Demand for modern office equipment, including communications systems, remains high and is expected to increase over the next three years. Finally, in the consumer field, a growing market exists for recreational goods, including sports equipment, boats, and home entertainment systems such as video-tape equipment, which is gaining popularity in many Saudi households.

Those considering entering this market should note that the most significant business development in 1977 was the increasing willingness of Saudi firms to form joint venture partnerships with U.S. companies. Concurrently, several Saudi Government initiatives have made these partnerships more attractive to American firms. For example: recent tender regulations (March 1977) give priority to wholly or partially-owned Saudi firms in granting government tenders and construction contracts; financial institutions, such as the Saudi Arabian Industrial Development Fund, give concessional financing to joint ventures owned at least 51 percent by local entrepreneurs; and, tax concessions may be based on this same formula. These developments reflect the Saudi Government's commitment to development of the private sector which, in the future, may become as important as the government market is today.

The U.S. businessman should always remember that despite the traditional preferences that Saudi buyers, both government and private, have shown for U.S. goods, American exporters are facing intensified competition in the Saudi marketplace. The U.S. business official should plan to spend considerable time developing personal contacts.

IRAQ

Trade Balance Has Shifted; Market Problems Remain

With oil reserves, substantial population and prospects for both industrial and agricultural development, Iraq has tremendous potential as a long-term market for equipment and services, according to Karl Reiner of the Bureau of Export Development. Iraq's 1977 oil income is estimated at $10 billion; it is the third largest oil producer in the Near East and has ample reserves, possibly the second largest in the Gulf area. It is also the only oil-rich Arab State in the area with enough water to permit significant agricultural development. Iraq has expanded its development plans; the 1976-80 Five-Year Plan calls for expenditures in the range of $45-50 billion, with emphasis placed on agriculture, transportation and industry.

U.S. manufacturers have a good potential market in Iraq if the political and marketing problems encountered in doing business there can be surmounted. The following categories of equipment have the best U.S. export potential: agricultural equipment, electrical power systems, communications equipment, construction equipment, building supplies, food processing and packaging equipment, textile machinery and metalworking machinery.

From 1973, when Iraq reopened to U.S. business, the United States had maintained a favorable balance of trade. In 1977, however, due to a tripling of Iraq's exports to the United States (mainly petroleum) and a near 50 percent drop in U.S. sales to Iraq, the trade balance shifted in favor of Iraq for the first time. Part of the decline of U.S. exports was due to very large onetime aircraft sales in 1976, but Iraq's strict enforcement of Arab boycott procedures may have had a negative effect on other sales.

Iraq's rigid stand on the Arab boycott of Israel has caused difficulty for U.S. firms in the past. Iraq's position on the U.S. anti-boycott law, due to come into force early in 1978, is not clear. If Iraq refuses to accept any changes in its procedures, the ability of U.S. industry to expand, or even hold on to its present market share, will be in doubt. Signals thus far have been mixed.

An American firm wishing to penetrate the Iraqi market for the first time faces a formidable task. The Iraqi Government's insistence on dealing directly with the seller, and a very stringent agency law, preclude the use of an agent in most commercial transactions. In addition, U.S. business representatives cannot visit Iraq unless specifically invited by an interested government agency; it is therefore impossible to make unsolicited presentations.

Many firms begin by writing to the appropriate ministry and submitting brochures and specifications for products in the hope that enough interest will develop so that an invitation to visit the country will be issued. Other firms have attempted to become suppliers or subcontractors to the Turkish, Yugoslav and Pakistani firms which have won large contracts in the agricultural-irrigation sector.

A possible avenue of market penetration for U.S. firms with foreign subsidiaries is participation in the Baghdad International Fair (Oct. 1-15 this year) or one of the specialized Iraqi trade fairs such as the Capital Goods Fair (March 1-15), where U.S. firms may participate directly.

Iraq

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Iraq:

U.S., Jan.-Nov. 1977, $193 million
Germany, Jan.-Sept. 1977, $586 million
Japan, Jan.-Sept. 1977, $577 million
France, Jan.-Sept. 1977, $328 million
U.K., Jan.-Oct. 1977, $236 million
Italy, Jan.-Aug. 1977, $144 million

U.S. imports from Iraq, Jan.-Nov. 1977, were $331 million.

KUWAIT

Economic Surge Goes On; U.S. Products In Demand

Kuwait is now the second largest cash-paying buyer of U.S. exports in the Arab world. Sales should reach $540 million in 1977 and increase to almost $700 million in 1978, according to S. Dickson Tenney of the Bureau of Export Development, as the vigorous demand by both the private and public sectors continues.

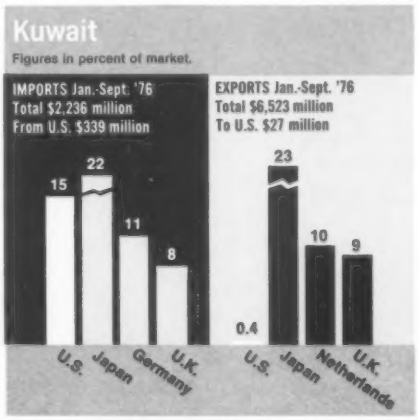
Kuwait has one of the world's highest per capita incomes, increasing foreign exchange reserves, and a large buying propensity in both the government and business sectors. Products in persistent demand include automobiles, aircraft, construction and mining equipment, air-conditioning and refrigeration units, mechanical handling equipment, chemicals, tobacco, food and live animals, and electric household appliances. Consumer goods such as clothes, recreation and entertainment equipment, and furniture are in increasing demand by the small but heavy spending middle class. Significant opportunities also exist for well-established architectural and engineering firms, along with construction management firms, as Kuwait expands its industry and infrastructure. Firms selling environmental control equipment should likewise find a market, as the Kuwaitis have become increasingly concerned about their serious air and water pollution.

Kuwait has not yet released its proposed Five-Year Development Plan for the years 1976-77 through 1980-81, but the plan's general outline is known and the government appears to be committed to some further industrialization. It plans to invest over $16 billion during the next five years, with about three-quarters to be spent by the public sector.

The country has several oil refineries; the centerpiece of its industrial development, a gas gathering facility with attendant production facilities, will initiate operations this year. The Kuwaiti oil companies are considering several other major projects, including the expansion of present refineries at a cost of up to $1.5 billion, a $300 million aromatics plant, a $550 million olefin project, an $80 million liquid ammonia plant, a $70 million hydrazene plant and a $25 million melamine project.

The government anticipates that over $500 million will be spent on industrial projects unrelated to petroleum production in the next five years; much of the money will come from the private sector. The Industrial Bank of Kuwait, which has a $350 million low-interest loan from the government, encourages the development of private, medium-size industries to manufacture building materials, furniture, food and beverages, among others.

Progress continues on the National Housing Authority's $4 billion program. A number of tenders, each for the construction of a maximum of 3,000 homes and facilities, have been awarded, and additional tenders will emerge in 1978. The $1 billion or more motorways expansion program is also under way; a few design and construction tenders have been awarded, several to U.S. firms, and a number will be tendered in 1978. Other major projects include expansion of cement production facilities, construction of prefabricated building elements, and a possible $210 million, 300,000-ton rolling plant to produce steel used in construction.



UAE

Economic Slowdown Has Little Effect On U.S. Firms

U.S. firms continue to successfully export to, and engage in major projects in, the United Arab Emirates (UAE) despite a downturn in economic activity which began in 1977 and will probably continue during most of 1978. According to S. Dickson Tenney of the Bureau of Export Development, U.S. exports are estimated to have reached about $500 million in 1977, and should rise to $560 million in 1978.

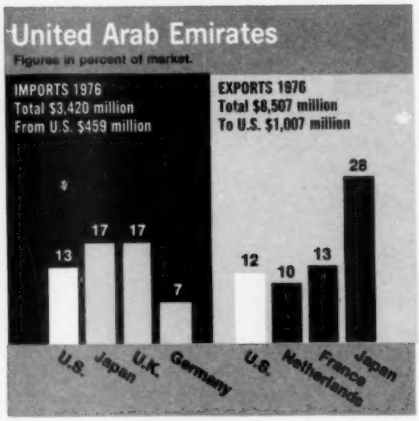
The government is the principal end-user of many U.S. goods. Products in demand include air-conditioning and refrigeration equipment, oil field and mechanical handling equipment, electric and non-electric machinery, water resource and power transmission equipment, as well as steel pipes and bars. Popular consumer items include automobiles, pleasure boats, textiles and home and office furnishings, with a market developing for fire and safety equipment and, in the long run, environmental protection equipment.

The UAE's economy remains financially sound with oil revenues exceeding $9 billion in 1977 and expected to hold about even in 1978. The slowdown generally has had the greatest impact on the private construction and banking sectors, both of which overcommitted their resources in the highly speculative 1975-76 economic boom. It also is having an effect on several other sectors of the economy, particularly those which have frequent need to request credit from the banking system but learn it has been restricted. Some of these obstacles will eventually be overcome as the constituent UAE governments plan to plow a substantial portion of their oil revenues into the development of industry; the investment should help stimulate the economy.

The slowdown has had some salubrious effects as it forced the government and banks to restrain the almost unlimited growth in the money supply and reduced demand, thereby dampening inflation. Port congestion also has been diminished because demand for some imports decreased. Further, many businessmen are adjusting to an economy which is not consistently booming while others, who are only seeking a quick profit, have been forced out of the marketplace.

Development of the two multi-billion dollar industrial complexes, Jebel Dhanna in Abu Dhabi and Jebel Ali in Dubai, goes on. The Abu Dhabi National Oil Company (ADNOC) awarded the U.S. firms, Bechtel and Fluor, the design, engineering and construction contracts for a $1.2 billion gas gathering facility near Jebel Dhanna. ADNOC is also developing a series of agreements for technical supervision, marketing, and equity participation, and plans to discuss them with interested U.S. firms. Contracts to build a 120,000 barrel-per-day refinery have been awarded and bids submitted for a large fertilizer complex in the same area. A liquefied natural gas (LNG) project under consideration has been delayed due to concern about the cost of the necessary related facilities. Contracts to build power and water facilities as well as roads and homes will be tendered over the next several years.

The gas cleaning, liquefaction and distribution plant in Jebel Ali is under way as is the aluminum smelter; both should initiate operations in 1980. A 69-berth port, which may cost up to $2 billion, and a $160 million power and desalination plant are under construction, and Jebel Ali authorities shortly will start contracting for an enormous amount of further infrastructure work.



LIBYA

Development Needs Will Attract U.S. Exports

The lucrative Libyan market, featuring large capital resources and an impressive pace in development spending, offers substantial sales and contracting opportunities in a number of fields, reports Claude Clement of the Bureau of Export Development. Although marketing conditions in Libya can pose a variety of pitfalls to the unwary, such as possible application of the Arab boycott of Israel and difficulties sometimes encountered when communicating with Libyan officials, the potential rewards can be plentiful.

Given the enormous imbalance in trade between the United States and Libya (U.S. exports to Libya in 1977 are estimated at about $310 million, imports at $3.7 billion) and the attractiveness of U.S. technology, an increase in U.S. sales is taking place. A recent $60 million agreement, the first major purchase of U.S. farm produce by Libya, is an example of the expanding U.S. market penetration. U.S. exports to Libya in 1978 are projected to reach $350 million, an increase of 10 percent over the all-time high reached last year.

Oil is the key to the Libyan economy and to the success of its ambitious development plans. Exports of crude petroleum account for almost all foreign exchange earnings and the bulk of government revenues. Libyan production of crude reached its highest level in four years during 1977, or 2.1 million barrels per day (bpd), and is projected to rise to 2.4 million bpd in 1978 and 2.7 million by 1980. Oil earnings already exceed both importing needs and capacities, thus ensuring a strong liquidity position (foreign exchange reserves stood at $3.8 billion in October 1977).

Best market prospects for American exports are for equipment and services related to Libya's 1976-80 Development Plan, for which scheduled investments exceed $25.5 billion. Planned government expenditures include $5.6 billion for industry, mines, and hydrocarbons; $2.6 billion each for agricultural development and housing; some $2.1 billion for communications and transport; $1.7 billion each for education and for development of municipalities, and $2.4 billion for electricity projects.

Specific industrial projects include $1 billion for an iron and steel complex at Misurata, with power and desalination plants, housing and port facilities; $152 million for food processing plants; and $74 million for eight textile mills. Cement production is to increase by one million tons in each of the next three years. The majority of these new projects will be state-run, organized under the General Public Organization for Industrialization.

One of the major long-term problems now facing Libya is the shortage of labor caused by the departure of Egyptian workers. Although they are being replaced by other foreign nationals, including Pakistanis, Turks, and Tunisians, this transition could conceivably increase the cost of development projects and social services while slowing down development growth.

Libya

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Libya:

U.S., Jan.-Nov. 1977, $284 million
Italy, Jan.-Aug. 1977, $829 million
Germany, Jan.-Sept. 1977, $483 million
France, Jan.-Sept. 1977, $282 million
U.K., Jan.-Oct. 1977, $239 million
Japan, Jan.-Sept. 1977, $202 million

U.S. imports from Libya, Jan.-Nov. 1977, were $3,439 million.

MOROCCO

U.S. Sales Move Upward In Open, Growing Market

U.S. sales to Morocco will continue to grow at a healthy rate this year if American exporters explore the wide range of sales and investment opportunities in this open and growing market. In 1977 U.S. exports to Morocco rose by 26 percent, and a healthy growth rate of about 10 percent is predicted this year by Claude Clement of the Bureau of Export Development.

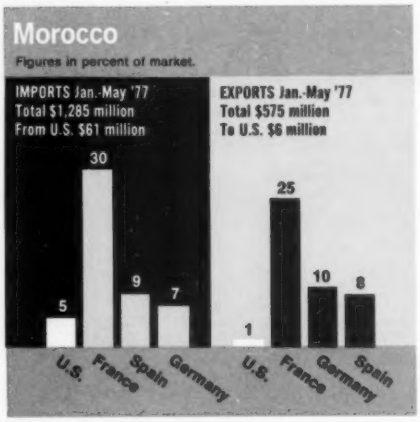
The Moroccan economy was confronted by both domestic and external problems in 1977 which are likely to continue this year: earnings from phosphate exports remained low, the textile industry was hardhit by restrictive import quotas imposed by the European Community, and the inflation rate averaged 15 percent. However, long-term prospects for the Moroccan economy are sound, due to its strong agricultural and natural resource endowments, and an already extensive infrastructure. Last year's GNP of $9.6 billion (estimated) should rise by 6 to 8 percent this year due primarily to continued government spending for machinery, infrastructure, and plant construction and expansion.

The government has shown that with good management of the economy, progress towards economic development need not suffer and external financing can be attracted. With high inflation and rising unemployment, Moroccan officials feel they cannot afford to delay development. Industrial investment, led by the government's progressive investment program, is thus likely to rise by around 10 percent from the already high 1977 level. There is also rising activity in the Moroccan private sector, which is showing signs of increased confidence.

Morocco's ability to borrow abroad to keep its development program on track was demonstrated during 1977 when the government had no trouble negotiating a $325 million Euromarket loan. In addition, Morocco received loans totaling $100 million from the Saudi Fund for Development to cover the Al-Massira dam, the Jorf Lasfar phosphate port, and irrigation projects in the Gharb.

Morocco is moving forward with a number of major projects which offer significant opportunities for U.S. companies, including equipment for and construction of the $2 billion steel complex at Nador, a chemical complex at Safi, several educational institutions including expansion of the universities of Fes and Casablanca, and numerous cement plants to keep up with the demands of a booming construction sector. Sales leads will also be offered by fabrication of a textile complex at Oued-Zem, extension of the SAMIR oil refinery, construction of a petro-chemical complex at Mohammedia, expansion of Morocco's fishing fleet and construction of the Beni Enzar port. Technical and management service companies will find an increasing market in Morocco as industrialization increases and development of high-technology agriculture progresses.

The Moroccan Investment Code offers incentives to firms prepared to accord local partners at least half ownership plus board chairmanship. In such priority sectors as mining, tourism and export industries, however, 100 percent foreign-ownership is authorized while still permitting foreign firms to profit from code incentives.



TUNISIA

Outlook Is Promising As Government Spends More

The outlook for exports of U.S. goods and services to Tunisia this year appears bright to Claude Clement of the Bureau of Export Development. U.S. sales to this progressive and friendly country rose substantially to $122 million in 1977 and are expected to climb by a healthy 10 percent this year.

This projection is based on increased government spending, as Tunisia enters the second year of its Fifth Development Plan (1977-81). With total public and private investments approaching $10 billion, the plan aims at creating over 250,000 jobs, achieving an annual GNP growth rate of 7.5 percent and reaching agricultural self-sufficiency. The plan allocates $3.3 billion in investment for the country's infrastructure and $1.2 billion for agriculture. Major projects totaling $1.2 billion have already been identified, including some in the areas of cement manufacturing and phosphate processing.

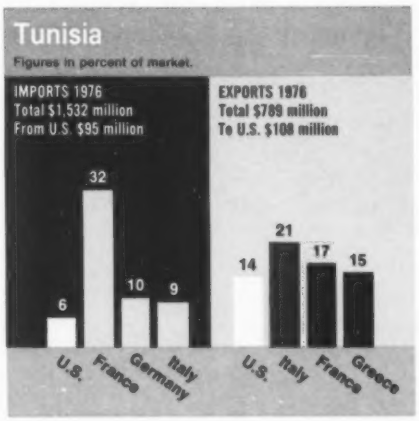
Opportunities for American engineering firms are strongest in the fields of hydraulics and include reservoir, water purification, and sewage projects. Exploitation of the Miskar offshore national gas field could also benefit from U.S. technology. Opportunities for U.S. equipment suppliers include capital machinery for light industry (plastics, food processing, electronics), for heavy construction and mining, and for the tourist industry. The Tunisian Government's determined push in the agricultural sector should lead to U.S. export sales of a wide variety of agricultural equipment.

With a 6 percent share of the market, the United States ranks as Tunisia's fourth largest trading partner, way behind the leader, France, which supplied 32 percent of Tunisia's imports in 1976. The wide gap is due, in large part, to historical fact and established practices: nearly all commercial dealings in Tunisia are in French; the country is located near European suppliers; and the bureaucratic formalities of selling to Tunisia (including import licenses and exchange controls) are not familiar to many American businesses. Another major factor is financing, since competitors are often able to offer mixed concessional/commercial credit packages not available to U.S. suppliers.

Nevertheless, many American suppliers have successfully overcome these obstacles and are now well established in Tunisia. They have captured major portions of the markets in aircraft, agricultural machinery, air-conditioning equipment, business machines, and scientific/medical instruments.

American firms looking for a manufacturing point to supply the European Community and the Arab states would do well to investigate the friendly climate for foreign investment in Tunisia. The Tunisian Government has an active program to stimulate foreign private investment in the industrial sector. Investors who produce entirely for export receive numerous tax, duty and exchange advantages.

Upcoming trade promotion events in Tunisia sponsored by the Department of Commerce include sales seminars on mining equipment, materials handling equipment and electrical energy systems, and a trade mission on building and construction equipment.



FAR EAST-SOUTH ASIAN EMERGENT ECONOMIES OFFER SALES POTENTIAL

U.S. Has Record Trade Deficit With Region

Prospects for higher U.S. exports to the Far East–South Asian area are favorable and are expected to continue unabated into 1978, especially in the emergent nations, according to Ross S. Quan, a Commerce Department Regional Affairs Officer.

In the first ten months of 1977, U.S. exports in current terms ($19.8 billion) ran 3.6 percent ahead of the same period in 1976 and by year-end should reach $26 billion. The forecast for 1978 is $28 billion, up 8 percent over 1977. Achieving commercial success in Asia's vibrant markets this year will require aggressive promotion and perseverance by U.S. companies in the face of stiff competition from European and Japanese suppliers. Last year's U.S. export performance in terms of market shares turned in mixed results with sizable percentage gains in some Asian countries and drops in others.

The trade outlook for the emergent markets is clearly optimistic. In 1977, GNP growth rates in these countries were 4 to 10 percent. This range is generally lower than the exceptional pace set in 1976, when some Asian countries reached growth rates of 12 percent or above. However, it is more realistic and reflects the desire of Asian central bankers to consolidate the gains of 1976 and hold down inflation. The steady pattern of growth demonstrates the strength of the region and underlines solid, growing import potential for U.S. products.

In 1977, the foreign exchange coffers of emergent nations continued to be replenished through extensive sales of oil, commodities, and manufactured goods. Some countries achieved higher growth in non-traditional manufacturing rather than in long established sectors such as minerals or commodities, and thereby gained a more diversified foreign exchange earning capability.

These earnings were supplemented by inflows from bilateral agreements and international lending agencies. In 1977 both the World Bank and the Asian Development Bank based in Manila actively lent several million dollars for development projects in Asia.

The favorable outlook for the emergent countries will continue, provided external demand for commodities and stable oil prices are maintained. Also, protectionism in industrialized countries could affect the foreign exchange earnings of the emergent nations.

The outlook for Japan, Australia, and New Zealand is cautiously optimistic. At present, business confidence is weak. Domestic reluctance to invest has hampered government efforts to reflate their economies. High prices have cooled consumer demand. The three countries are still weathering the effects of a persistent recession which has frustrated full recovery and inhibited the pace of imports. Consequently, the U.S. shares in these markets (14-21 percent) are not expected to increase dramatically, but should remain at about the 1977 levels.

While immediate U.S. export prospects are not particularly bright, the long-term outlook is good. Government officials in these three nations are hopeful the pace of economic recovery will pick up in the second half of 1978.

Malaysia a bright spot

The remainder of the countries in Asia account for a smaller total of trade with the United States—except for Malaysia. Economic indicators point to a bright 1978 for Malaysia. As a result of substantial petroleum, minerals, and other commodities receipts, Malaysian GNP should grow by close to 10 percent in 1977 with comparable real growth projected for 1978. Malaysia has enjoyed a low inflation rate and accumulated a significant amount of foreign exchange reserves, $2.7 billion, which is sufficient to finance seven months of sustained imports.

To implement public sector projects under the Third Malaysian Plan, government officials are spending large sums for goods and services. These purchases should stimulate U.S. exports which reached $466 million as of October 1977, up 5.6 percent in current terms from the same period in 1976. The U.S. market share has risen to 12.7 percent from 10.7 percent and strengthened the U.S. position as Malaysia's second largest supplier. Best sales prospects for U.S. exporters include: laboratory instruments, building/construction equipment, metalworking equipment and pollution control equipment.

The combination of foreign exchange and international loan inflows coupled with competent, professional management has generated feverish economic activity and increased the scope and depth of industrial and agricultural sectors. Market parameters are being expanded and represent widening pools of purchasing power.

The general level of technical sophistication in the Far East-South Asian region will continue to increase. To attract foreign investment, several emergent nations still offer preferential treatment and fiscal incentives in capital, technology-intensive and export oriented industries. Interest in improving manufacturing and industrial capability opens the way for more sales.

Several national development plans representing billions of dollars are being implemented. The necessity of improving infrastructure remains a high priority with transport systems, ports and waterways, communications, rural electrification and health, and public works commanding attention. These activities open the way for sales of heavy construction and earthmoving equipment, power generators, telecommunications, materials handling equipment and transport equipment.

Vast mineral and timber reserves in Southeast Asia are still untapped. Mining and timber harvesting/handling equipment should continue to enjoy strong sales potential.

Population growth is still an overriding concern in the area. Government officials and businessmen are interested in the latest agricultural technology and equipment to increase food output. This attention augurs well for sales of agro-industrial and food processing equipment.

The emphasis on high technology requires quality instrumentation and measuring apparatus. Process control, scientific, and electronics industry production and test equipment will continue to attract interest in 1978. Furthermore, greater industrialization in the region will focus attention upon pollution and the need for pollution control equipment.

Due to the relative health of its economy, the United States remains one of the principal markets for Asian exporters. A number of Asian countries shipped at least 25 percent of their total exports to the United States in 1977. As of October, U.S. imports from Asia such as petroleum, natural gas, minerals, agricultural commodities and manufactured goods soared to $31.6 billion. This figure made the region the second largest supplier to the U.S., after the Western Hemisphere.

The U.S. exported $19.8 billion of goods to Asia in the period January-October 1977. The region ranked as the third largest market for the United States, after the Western Hemisphere and West Europe.

These figures reveal a record U.S. trade deficit with Asia of $11.8 billion, compared with the 1976 high of $8.8 billion. Two-way trade, which reached $51.4 billion through October, is expected to surpass the $54.8 billion of 1976. In terms of bilateral trade, the U.S. had high deficits with Japan, Indonesia, Taiwan, and Hong Kong.

The Association of Southeast Asian Nations made noticeable progress in 1977. The August 1977 Heads of ASEAN governments meeting in Kuala Lumpur resulted in an agreement to reduce tariffs internally by up to 30 percent on 71 products. In addition, the Philippines, Singapore, and Thailand agreed to lessen tariffs by 10 percent on 1,758 items. Five ASEAN central bank governors also signed a $100 million currency swap arrangement.

JAPAN

Recent Steps Spur Prospect For Economic Upturn in 1978

Japan's present lethargic economy bears little resemblance to what the world has come to expect on the basis of the country's past performances, observes Arthur Miyakawa of the Bureau of Export Development. Recent developments, however, prompted by U.S.-Japan trade consultations, point to a more optimistic outlook.

Last year, Prime Minister Takeo Fukuda moved to inject vigor into the economy—through pump priming, reduction of the Bank of Japan's rediscount rate to 4.25 percent (the lowest in the post World War II era), an increase in the general account budget to $123 billion, and expansion of the fiscal loan and investment budget to $55 billion. While not admitting failure but to bring about a better possibility of reaching full recovery, Fukuda on Nov. 28 shuffled his cabinet, bringing in new but experienced members known to favor economic expansion, to give impetus to these measures. The programs, combined with personnel changes (and assuming no sudden oil price rise) and a positive effort to expand imports, increase the prospects of an upturn during 1978.

U.S. exporters, however, will hardly find it easy to exceed significantly last year's estimated $10.4 billion sales to Japan. Under these unsettled conditions, forecasting U.S. exports to Japan for 1978 is hazardous at best, but they could approach $11.5 billion. The key to this or larger exports rests on the overall health of Japan's economy.

Over the short term, the continuing low level of personal consumption and the accompanying very high rate of savings, which in Japan approaches 20 percent, a stagnant performance in private investment in plant and equipment, the continued high unemployment of about 2 percent (high for Japan with its "once-hired, never-fired" philosophy), and the fear of another round of inflation which remains at about 8 percent, all lead to an absence of the essential business confidence required to spur recovery.

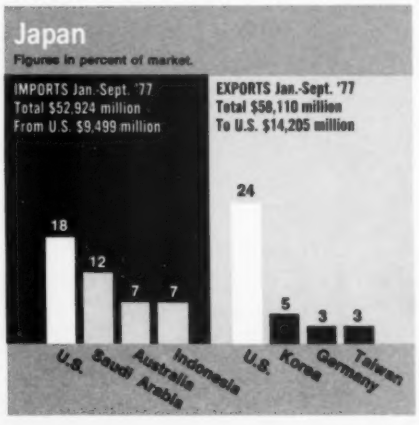
No one in Japan doubts the need for the government to adopt vigorous steps to reflate the economy. Serious questions exist, however, concerning the administration's ability to bring it off. With unused plant capacity ranging from 20-30 percent, combined with the high unemployment rate, neither the Japanese industrialists nor the average citizen is in a mood to engage in any spending spree.

To increase imports from the United States—thereby decreasing the country's rapidly increasing bilateral trade deficit—and to blunt growing U.S. protectionist sentiment, Secretary of Commerce Juanita M. Kreps, Prime Minister Fukuda, and Minister of International Trade and Industry Tatsuo Tanaka agreed during talks in Tokyo last September that Japan should move toward a current account deficit as rapidly as possible.

In mid-December, when it became apparent that Japan would fail to reduce its trade and current account surpluses, a U.S. sub-cabinet-level team representing the Departments of State, Treasury, and Commerce went to Japan to express concern and to urge immediate rectifying actions. A significant result of these discussions was the establishment of two joint U.S.-Japan committees: the Joint Economic Forecasting Committee, to review forecasts of key macroeconomic variables; and the Trade Facilitation Committee (TFC), to help increase Japanese imports of U.S. manufactures **(see inside front cover of this issue).**

Trade measures negotiated reiterate Fukuda's pledge to seek a 7 percent real growth rate in fiscal 1978 to stimulate domestic demand, reduce tariffs on about $2 billion worth of imports in advance of the Geneva tariff negotiations, and remove import quotas on 12 items. Also agreed to were treble import increases in oranges, quadruple growth of orange and grapefruit juices, and a beef quota increased to 10,000 metric tons beginning next fiscal year. In essence, therefore, Japan is finally moving from an export dependent nation toward a full international trading partner.

In 1977, U.S. exports accounted for an estimated 18 percent of Japan's total imports. While the TFC program will help enlarge gross U.S. sales, it does not necessarily assure an increase in market share because of Japan's huge oil import bill, which now accounts for almost 30 percent of Japan's total imports. For example, on the basis of the first nine months of 1977, Japan's imports (c.i.f.) of oil increased about 18 percent, compared with a total import increase of 10 percent, and cost $18.4 billion. By contrast, Japan's imports from the United States rose only 8 percent to equal $9.5 billion.



Currently, no broad base exists on which the economy can advance. The automobile, metal products, paper and pulp, and rubber industries and leather products and foodstuffs, show continuing promise—offset however, by the prospects for reduced sales in transportation, electric generation equipment, shipbuilding, and textiles. About the only sector showing real continuing promise is exports, Japan's reliable standby which, in terms of dollars, increased about 20 percent during the period January-October 1977 over the same period of 1976. By contrast, imports remain stagnant owing to the generally unfavorable economic picture.

Real gross national product (GNP) averaged 8.2 percent over the decade 1967-76 but is expected to grow far less in 1978—perhaps about 6 percent. The goal of a 6.7 percent growth rate in Japan Fiscal Year (JFY) 1977 ending March 1978 under the Fukuda program is in difficulty. Forecasts are difficult for 1978; but a vigorous application of various economic stimulation measures, including a second supplementary budget, and an expansionary JFY 1978 budget, should push the rate toward a higher growth goal desired by the United States.

A major element toward realizing this goal is business confidence which, at the moment, appears lacking. Most Japanese businessmen see little change in the domestic economic performance through the end of the current fiscal year. Nearly nine out of the ten managers of large firms interviewed by Japan's Economic Planning Agency last year, for example, saw very little reason for optimism in interpreting the visible economic indicators as evidence of increased activity.

To overcome the lethargy, the government has tried particularly to encourage more private housing starts through readily available and less costly funds. It has also initiated heavy spending in the public sector where some evidence of the multiplier effect is just beginning to appear. The Japanese Government, however, may have been somewhat overoptimistic in expecting by this time quick visible evidence of economic revival. Possibly, easy money, public expenditures or investments, increased imports, and a pick-up in private spending combined with a well planned and coordinated effort directed by the recently appointed cabinet members, including Nobuhiko Ushiba, the new Minister of External Economic Affairs, will be able to show welcome results during 1978.

This somewhat less than favorable picture should not dampen U.S. sales prospects in such selected lines as computers and peripherals, process controls, food processing and packaging equipment, analytical instruments, biomedical equipment, electronics industry production and test equipment, mechanical handling equipment, printing and graphic arts

equipment, and building systems and materials. Additionally, demand for high quality, new consumer goods will improve as the Japanese economy revives and personal consumption expenditures once again advance. To meet this opportunity, an American consumer product must include some feature identifying it immediately as "Made in USA," a label which increasingly calls for a premium the Japanese are willing to pay.

AUSTRALIA

Economic Recovery Is Key To Prospects For U.S. Sales

The level of Australian imports in 1978 will depend on domestic economic recovery, the severity of Australian protectionist policies, and the country's ability to remain competitive on world markets despite the high cost of imports. Nancy H. Keely of the Bureau of Export Development expects the pace of the economy to quicken after mid-1978, boosted by improved consumer demand, which in turn should further accelerate private investment.

Although Australia's overall balance of payments deficit was $559 million for FY77 (ending June 30), it was only half that recorded the previous year. Gross Domestic Product at current prices was $95.2 billion in 1976, a negative growth of 2.8 percent in constant prices as compared with 1975. Nonetheless, real non-farm GDP could expand about 4 percent in 1978.

The inflation rate, a crucial problem, declined slightly during FY77. The consumer price index rose 10.2 percent in FY77. No marked reduction is expected for several months. To combat inflation the government introduced an austere national budget and continues to press for wage restraint.

The rate of increase in Australian average wage rates declined significantly in FY77 (10.8 percent as against 14.6 percent in FY76). New labor legislation grants power to ensure observance of the Conciliation and Arbitration Act's regulations and awards by providing for fines and incarceration.

The recently reelected conservative government has taken various measures to promote strong stable growth of the private sector. The new personal income tax scale to be introduced in February seeks to restore personal initiative and the will to work as well as to increase consumer purchasing power. Although the company tax rate for FY78 will rise slightly to 46 percent, benefits to the business sector during that year should total almost $1 billion due to company tax concessions introduced during 1976—i.e., the investment allowance, trading stock valuation adjustment, and concessions in the mining sector. Company profits increased nearly 25 percent in FY77.

The government is actively seeking foreign investment, particularly in the extractive industry. Although long-term goals of the investment guidelines continue to be maximum Australian ownership and control of the economy, there may be greater flexibility in implementing the guidelines than in the 1973-75 period.

Several initiatives with general application have been anounced: extension to June 30, 1986, of the 20 percent investment allowance tax incentives (the current 40 percent allowance expires on June 30, 1978), and a procedure whereby the government may eventually grant approved and very large development projects a guarantee of immunity from exchange controls for specified periods. Other initiatives are directly aimed at the North West Shelf Project and petroleum exploration. Current new mining ventures should lead to about a 60 percent increase in investment by the sector during 1978.

The attractiveness of opportunities will, however, in the medium-term, depend less on official policy than on Australia's economic recovery, the country's cost structure becoming more comparable with that of other potential host countries, and on world demand for Australia's exports.

Equipment offering exceptionally good prospects for U.S. exports includes: computers and peripherals; business machines; pumps, valves, and compressors; agricultural; industrial; mining and heavy construction; automotive maintenance and repair; bio-medical; communications; metalworking; power generating and distributing; printing and graphic arts; security; and food processing and packaging. Sales should accelerate as Australian business increasingly utilizes the 40 percent (and later 20 percent) investment allowance tax incentive.

U.S. consumer goods benefit from their favorable reputation and competitive advantage due to high internal Australian prices. Increased Australian spending on leisure-time activities should raise sales of recreational, camping and sporting equipment, kitchenware, hand tools, hardware, arts and craft materials, fashions, toys, games and furniture.

U.S. trade promotion events in Australia in 1978 include: food processing & packaging trade mission, March; business equipment & systems, U.S. International Marketing Center (IMC), Sydney, July; U.S. pavilion, Australian International Engineering Exhibition, Sydney, September; hotel, motel, and restaurant trade mission, October; telecommunications equipment, IMC, Sydney, October.

INDIA

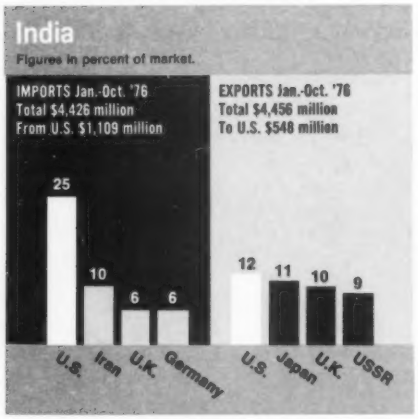
Moderate Growth Continues; Imports To Be Liberalized

India's prospects for continued economic growth and an expansion of international trade are very promising, according to Monroe E. Aderhold, trade specialist in Commerce's Bureau of Export Development.

Overall economic growth during 1978 will probably remain in the 4 to 6 percent range. Particular bright spots in the economy are India's foreign trade surplus and the continuing improvement in its foreign exchange position, which will reach a record level of about $5.4 billion by the end of the current fiscal year (March 30, 1978). The continuing upward trend of earnings from exports, tourism and remittances from Indians abroad, along with annual external financial assistance of about $2 billion from the World Bank and countries committed to India's economic growth and liberalized import control policies, provides a unique situation for U.S. exporters of capital goods, technology, raw materials and operating supplies.

The new Jananta Government is still in the process of formulating a definitive economic policy but there is overall agreement that increased emphasis and allocation of resources will be directed toward development in the agricultural sector and creation of small-scale industries in the rural areas. The objective of the government is to create employment in rural areas and stimulate broad-based consumer demand. Although emphasis is being placed on rural development, expansion in the industrial sector will continue on a selective basis with priority accorded to the following industries: steel, non-ferrous metals, cement, petroleum, communications and transportation. The acquisition of high technology equipment in sectors essential for long-range development objectives, such as sophisticated machine tools, engineering, petrochemicals and export oriented production, will continue to receive preferential consideration.

Because of its favorable foreign exchange position, the government has announced its intention to liberalize import



policies. The objectives are to provide adequate protection for indigenous producers but allocate sufficient foreign exchange to manufacturers for imports required to increase utilization of existing production capacity and modernize various sectors of the economy with imported technology, capital equipment and machinery. Import policies are extremely liberal for export-oriented manufacturers.

Trading with India usually involves more time, bureaucratic paperwork and patience than with most other countries. However, it can be profitable. Although business negotiations are often protracted and frustrating, both the Indian Government and businessmen have a reputation for honoring their business commitments. Foreign exchange is available from India's own resources or external financial sources to implement priority projects and specified objectives. U.S. business should focus its marketing efforts on targets which are accorded a high priority by the Indian Government. The market is nil for luxury and non-essential consumer products, or equipment which involves a low level of technology.

Projects accorded a high priority by the Indian Government include modernization of the communications network, which will include a U.S.-launched satellite in early 1981, telecommunications installations, ground stations, telex and telephone equipment and other supporting equipment; continuing onshore and offshore petroleum exploration, construction of production and distribution facilities and refining capacity; installation of an additional 20,000 MW of electric power generation capacity (13,000 MW thermal, 6,200 MW hydro and 500 MW nuclear) and distribution facilities; development of mineral resources, particularly iron ore, coal, bauxite and non-ferrous metals; expansion in the iron and steel industry; upgrading the aviation sector with new aircraft and avionics equipment such as radar and navigational systems. In addition, there is a market for computer peripherals, components and production equipment for a rapidly expanding electronics industry, a broad range of chemicals for industry and pharmaceutical applications, synthetic fibers and scientific apparatus for industry and the medical field. There is also a good potential market for a broad range of specialized equipment and industrial processes which incorporate the latest technology and innovation.

To highlight commercial opportunities for U.S. business, the U.S. Embassy in India conducts several market research studies each year which are available from the Department of Commerce. During 1977, market research was completed for the following product categories: avionics and aviation support equipment; printing and graphic arts equipment; and hospital, healthcare and bio-medical equipment.

Trade promotional events scheduled include a printing and graphic arts catalog show in April 1978; a communications equipment and systems trade mission, November 1978; and a healthcare and medical equipment catalog show in January 1979.

HONG KONG

Other Products Will Offset Any Loss In Textile Exports

Despite difficulties in textile negotiations with its major export markets in Europe and North America, Hong Kong's economy continues to grow at a steady pace. Protectionism may slow Hong Kong's textile exports, but exports of other products should take up the slack in 1978, according to William Zamula of the Bureau of Export Development.

Clothing still accounts for 40 percent of total exports, but Hong Kong manufacturers are now emphasizing electrical and electronics products, watches and clocks, artificial flowers and toys. All of the aforementioned products were exported in 1977 at rates 30-40 percent higher than 1976, while exports of clothing declined almost 4 percent. Diversification of its markets, especially into the OPEC nations and Europe, has also been beneficial, but the United States, West Germany, Britain, Japan and Australia continue to take the bulk of Hong Kong's exports.

Unlike 1976, when export growth far outpaced imports, imports grew 11 percent while exports rose only 7 percent in the first three-quarters of 1977. U.S. exports to Hong Kong rose 13 percent, and the United States now has a 12.6 percent share of the Hong Kong import market, an improvement from 12.3 percent in 1976. Japan improved its market share to 23 percent and the People's Republic of China (PRC) share declined to 16 percent. The PRC, Japan and the United States, in order of market share, also provided more than half of Hong Kong's reexports.

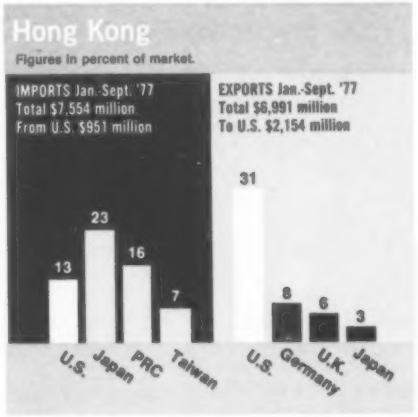
Electrical machinery and appliances, textile fibers and textile waste, non-electrical machinery, electronic components, fruits and vegetables and tobacco products constitute Hong Kong's major imports from the United States. Textile fibers and textile waste imports were up 118 percent for the first nine months of 1977, accounting for most of the increase in U.S. imports.

During the first nine months of 1977, Hong Kong's overall balance of trade was almost $600 million in deficit; however, Hong Kong enjoys a billion-dollar surplus in trade with the United States. Of course, the balance of trade figures do not include invisibles, such as tourist earnings, which reduce Hong Kong's overall deficit, but exacerbate its surplus with the U.S.

Hong Kong's real gross domestic product in 1977 was expected to show an increase of 7 percent or better over 1976 and inflation may have reached 6 percent, implying a GDP of $13.3 billion. Tourist spending and the many public works projects under way and in planning will help fuel continued growth in the range of 7-8 percent in 1978, despite the slackening in export growth.

The largest public work in progress is the $1.2 billion Mass Transit Railway, which should be completed by 1980. The government has approved construction of another nine-kilometer segment. Over $4 billion will be spent on roads, tunnels, hospitals, clinics, housing, a stadium, new town development and other facilities over the next six years, if current plans are implemented.

Products with the best sales potential, other than raw materials and agricultural products, are those which are needed for the continued development of Hong Kong's industry, and those required by the government to upgrade the welfare of Hong Kong's citizens. Building supplies, construction equipment, communications equipment, business equipment, laboratory equipment, electronic components and health care equipment are among products that fill these needs, and consequently provide the best opportunities for American exports.



INDONESIA

Economy Remains Strong; U.S. Trade Share Declines

Indonesia's economic performance continues to be strong, as rapid growth in export earnings supports the favorable balance of payments position. While the payments surplus in FY78 (Indonesian fiscal year ending March 31) will probably not equal the $1 billion surplus of FY77, net foreign exchange reserves reached $2.7 billion in October 1977 and will probably still be above the $2 billion level at year-end despite the need to finance larger than expected rice imports in the last half.

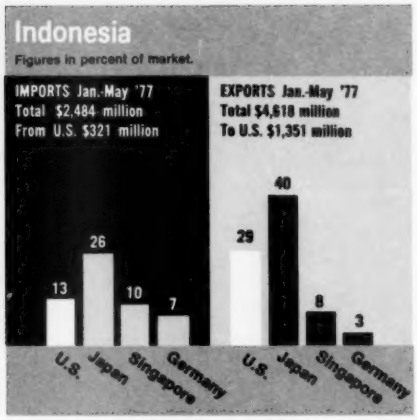
M. Virginia Webbert of the Bureau of Export Development reports that a GNP growth rate of 7 percent is being maintained. By Nov. 30, inflation had been reduced to an annual rate of 11 percent, slightly above the targeted rate of 9-10 percent but below the 14 percent of December 1976.

Foreign confidence in Indonesia's financial stability has been bolstered by the high level of reserves and the government's cautious policy on foreign borrowing. In FY78, this will be cut back to $2.1 billion from $3 billion in FY77 by reducing the more costly export and commercial credits. However, development spending from domestically derived budget funds will be higher than in FY77.

According to Central Bureau of Statistics (CBS) figures, exports valued at $4,618 million in January-May 1977 ($11 billion at an annual rate) were 44 percent above those in the same period of 1976. While the value of gross oil exports, comprising 69 percent of the total, rose by 34 percent, earnings of non-oil exports, comprising 31 percent, rose by 70 percent.

Imports in the first five months of 1977 (CBS figures) were 30 percent higher than in 1976, but the growth rate is expected to be considerably less on an annual basis. Actual imports in 1976 are estimated at $7.8 billion (compared to the CBS figure of $5.7 billion) and in 1977 may have approximated $9 billion.

The U.S. share of Indonesia's imports (CBS figures) fell to 13 percent in January-May 1977 from 17 percent in 1976. The declining U.S. share is confirmed also by U.S. Census figures. In January-November 1977, U.S. exports to Indonesia, amounting to $701 million, were 26 percent below their level in the same period in 1976. Machinery and equipment sales, the dominant group, fell by some 30 percent, probably due in part to lower U.S. investment expenditures, reduced Eximbank lending, and the fact that 1976 exports included unusually large purchases to set up the domestic telecommunications satellite system.



U.S. imports from Indonesia, however, rose 16 percent to $3.2 billion in January-November, according to U.S. figures.

Indonesia's exports are expected to expand substantially in 1978 despite uncertainties regarding oil output. While lower foreign investment levels and restraints on foreign borrowing depress the rate of import growth, Indonesia's import market will continue to expand and offer many attractive trade opportunities. Demand is especially strong for: construction, mining, and materials handling equipment; mineral working machinery; heating and cooling apparatus; electric power and power generating machinery; pumps; and agricultural and wood processing machinery.

KOREA

Inflation, Growth Goals Met; Import Actions Help U.S.

Korea attained its goals of 10 percent real GNP growth and an inflation rate reduced to 10 percent in 1977, according to Myra L. Triplett of the Bureau of Export Development. The balance of payments outlook is bright due to strong export performance, with the current account projected to show a surplus for the year of some $50 million. When the fact that the current account was $2 billion and $1.8 billion in deficit in 1974 and 1975, respectively, is taken into consideration, Korea's balance of payments achievement was remarkable. Although there is a projected increase in imports and expansion of the trade deficit, the strong services sector should insure the projected current account balance.

Korea's exports probably reached or slightly surpassed the $10 billion target for 1977, with the United States retaining its position as Korea's principal export market ($3.0 billion). Korean imports totaled some $11.2 billion in 1977. The United States improved its market share from 22.3 percent in 1976 to 23.4 percent, with sales of $2.6 billion.

Prices are trending upward. A little past mid-year wholesale prices were 7 percent above December 1976 levels and consumer prices were up 9.5 percent for the same period.

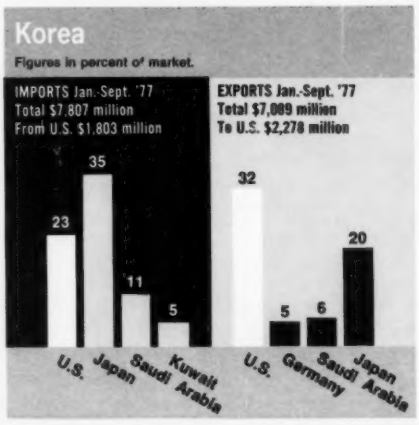
Wages were expected to increase by some 30 percent in 1977 compared to about a 33 percent average for 1976. The government has announced its intention to hold wages to a 15 percent gain in 1978 to prevent cost-push inflation, but it remains to be seen whether the pressures of the market can be restrained.

The Korean Government recently took two import liberalization measures which will benefit U.S. suppliers. These actions are the most far reaching to date and augur well for future progress toward freeing Korea's restrictive trade regime.

The first lifted import restrictions on 60 commodity items, and raised import ceilings on an additional 13. It was claimed that this measure would result in an additional $105 million in imports by the end of 1977, and $700 million more in 1978. The main beneficiary appears to be the United States. The most important commodities affected are scrap iron, rolling mills, and DMT (a petrochemical).

The second measure announced the terminal trade plan for the first half of 1978, liberalizing imports of 126 more items, including machinery, engine parts, acrylic yarn, aluminum sulphate, solid tires, ferro silicon alloy and stud cable. As a result of this measure, imports in 1978 are expected to increase by about $850 million.

The best prospects for U.S. exports to Korea are metalworking and finishing machinery, power generation equipment, construction and mining equipment, process control instrumentation, materials handling equipment, laboratory instrumentation, electronics production and test equipment and components, computers and peripheral equipment, textile and apparel machinery, and medical equipment. In this connection, the U.S. Department of Commerce will sponsor in Seoul a plant maintenance equipment and systems trade fair in September.



NEW ZEALAND

Import Market Is Limited By Continuing Recession

Persistent recessionary influences on New Zealand's economy will limit the growth of the country's import market during fiscal 1978 (April 1977-March 1978), according to Joseph C. Wilson of the Bureau of Export Development. Imports are expected to total $3.5 billion, 12 percent above the FY77 total, and similar results are anticipated for 1978. The U.S. share of the 1978 market should be about $550 million, an increase of approximately 15 percent over 1977.

GNP, estimated at some $12.8 billion for FY77, is forecast to reach $14.5 billion during FY78; this represents negligible growth in real terms since the rate of inflation will be slightly more than 13 percent. Real GNP growth is forecast at 1.5-2 percent for 1978.

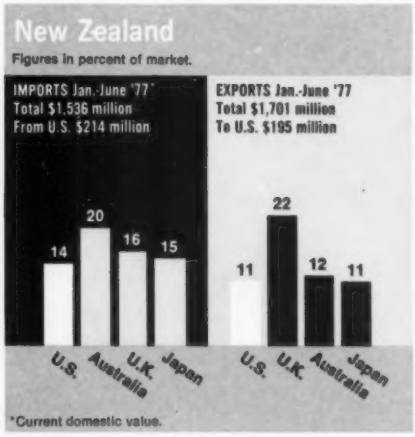
Although New Zealand has a favorable balance of trade, the balance of payments, including such "invisibles" as foreign debt servicing, transportation and insurance, and tourism, shows a deficit of $983 million for the year ending October 1977. Total official overseas reserves were $682 million at that time. In order to overcome its persistent belance of payments problem, New Zealand is actively seeking new markets for its traditional exports of meat, wool, and dairy products and is also seeking to diversify its range of export products by placing particular emphasis on increasing exports of manufactured goods.

Business confidence is expected to pick up from its present low level by mid-1978 as government measures to promote production for export while restraining imports take effect. New Zealand's imports are already pared down to the necessities required to service its agricultural and industrial sectors.

Best export prospects include pulp, paper, and other forest products machinery; computers, office equipment and systems; and health care, scientific and engineering equipment. Good prospects also exist for equipment for the natural gas, coal, transportation, power generation and distribution industries.

Major projects under way or in planning include a natural gas field, a petrochemical plant and expansion of a petroleum refinery. The fishing industry will show substantial growth because of New Zealand's action to establish a 200-mile economic zone.

Traditional New Zealand imports offering good U.S. export prospects include communications equipment, machine tools, artificial fibers and fabrics, synthetic rubber and rubber products, chemicals, fertilizers, insecticides, fungicides, medical



and pharmaceutical products, tobacco, fruits, and edible oils.

Major Department of Commerce trade promotion efforts during 1978 include a solo trade exhibition in July, AmTech '78, featuring medical equipment and computers and business equipment with related health care applications. Commerce also plans a commercial fishing equipment trade mission in September.

New Zealand has an attractive investment climate, and there are no problems in repatriating capital or remitting dividends. Investment proposals are screened by a government commission and must demonstrate a net gain to the country's economy, i.e., by introducing either new or improved technology or marketing expertise. An impressive number of U.S. companies are well established and there is an effective U.S. Chamber of Commerce to provide active support and assistance.

PAKISTAN

New Sense Of Stability Accompanied By Optimism

Pakistan begins 1978 with optimism for the economy's near term, according to George E. Paine of the Bureau of Export Development. The Military Law Authority (MLA), which took over from the Bhutto administration in mid-1977, has brought an air of stability to the country and is gradually reopening several sectors of the economy to private control. However, the question mark in Pakistan's economic future is the timing of new elections and the type of political leadership which will emerge.

Pakistan's GNP, which was $4.1 billion in the year ending June 1977, is expected to increase by 4 percent in 1978. Supporting this GNP growth are anticipated large rice exports and remittances from Pakistanis in the United Kingdom and the Middle East. Last year Pakistan was the world's fourth largest rice exporter, growing 10 percent of the world's exported rice. Remittances from Pakistanis abroad in 1978 are expected to reach $800 million, an amount approaching that of their forecast total exports of $1.25 billion.

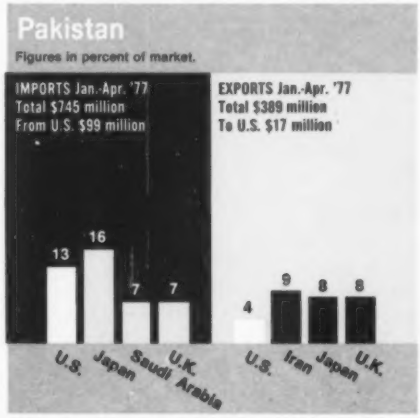
Pakistan's total imports for the year ending June 30 were $2.3 billion. The country's major imports in 1978 are expected to include machinery (electric and non-electric), petroleum products, transport equipment, wheat, vegetable oils, tea and textile manufactures. The level of imports will be greatly influenced by the degree to which Pakistan is able to finance its balance of payments deficit through loans from international lending institutions, the United States, and oil-wealthy Muslim countries.

The investment picture in Pakistan has been brightened considerably by the reopening of several industrial sectors for private investment. Several American firms are now at varying stages of completing joint venture agreements in Pakistan in the fields of minerals, petroleum and fertilizers.

Most U.S. firms in Pakistan have continued to operate profitably during 1977 and the outlook is much the same for the coming year. Foreign firms do, however, often chafe under the closely regulated business atmosphere existing in Pakistan, which results in profit margins considered inadequate by some overseas investors.

Pakistan's severe balance of payments problem and shortage of foreign exchange reserves limit U.S. export possibilities. However, its import licensing regime is less restrictive and cumbersome than that of many other developing countries. The best prospects for U.S. exporters are in the areas of edible oils, chemical fertilizer machinery, telecommunications equipment, port equipment, hotel equipment, heavy construction equipment, and cement and railway equipment.

There is also a growing market for food processing equipment (such as sugar mills, slaughter house equipment, edible oil processing, wheat and rice milling equipment, fruit and vegetable packing and processing machinery and equipment for



frozen foods). Also promising are power transmission and control equipment, secondary quality steel sheets, steel scrap and gas transmission equipment. Engineering and consultative services will also be needed in connection with development projects.

PHILIPPINES

GNP Real Growth Rate Moderate, Exports Expand

The Philippine economy expanded at the moderate GNP real growth rate of 6 percent during the first half of 1977 and was expected to finish the year at this rate. Inflation continues to be kept at the modest rate of around 7 percent, according to Damon La Brie of the Bureau of Export Development.

Philippine exports in the early months of last year increased about 23 percent over a similar period in 1976. At the same time, Philippine imports increased about 4 percent. The Central Bank expects final figures for 1977 to show exports finishing 20 percent ahead of 1976 and imports to be up 10 percent. The Central Bank projects a 1977 year-end trade deficit of $970 million and a current account deficit of $884 million, a substantial decrease in the current account deficit of $1,107 million at year-end 1976.

For 1978, the Central Bank expects an 18 percent increase in exports and a 14 percent increase in imports, a trade deficit of $1 billion, and a current account deficit of $840 million.

Central Bank figures show sizable increases in output of textiles, wearing apparel, chemicals, coal, rubber and plastic products. Agriculture, fisheries, and forestry have shown a slower growth rate for the crop year 1976-77. Agricultural and forest products continue to be the principal earners of foreign currency. Garments and chemicals, however, lead the manufactured products that are increasing in export volume.

The Central Bank monitors all business transactions involving transfers of hard currencies for payment of overseas obligations through the issuance of letters of credit. U.S. business is cautioned to deal with importers in the Philippines only by letter of credit. Failure to follow this procedure may result in extended complications before payment is received. Philippine Customs authorities are meticulous in examining documents, and exporters must be careful in preparing documentation.

The country continues under martial law, which supports an environment conducive for business. The Filipino business community remains generally confident and the daily life of the average citizen is not affected.

After the recent discussions on a possible successor treaty to the Laurel-Langley Agreement that expired in 1974, it is unlikely that a new bilateral overall economic treaty will be negotiated in the foreseeable future.

The Philippines welcomes foreign investment and potential investors classified by the Board of Investments as "pioneer," "preferred," and "export-oriented." Investors in these categories are offered tax holidays, liberal repatriation of profits, and high percentages of foreign ownership.

U.S. products with the highest potential for sales in the Philippines are: pollution control instrumentation and related equipment; computers and peripheral equipment; telecommunications equipment and systems; food processing and packaging equipment; energy systems and industrial power equipment; scientific and industrial analytical equipment; health care and medical equipment; and heavy duty construction, earthmoving and mining equipment.

A Scientific, Industrial and Medical Instrumentation Exhibition will be held in the Philippine Plaza Hotel in Manila Aug. 14-18.

SINGAPORE

Goods, Services From U.S. Top $1 Billion In Value

The United States was Singapore's largest trading partner in 1977, capturing 15 percent of the Republic's total trade. The 1978 outlook is excellent and prospects remain encouraging for the sale of U.S. equipment and services, according to J. Lee Barnes of the Bureau of Export Development.

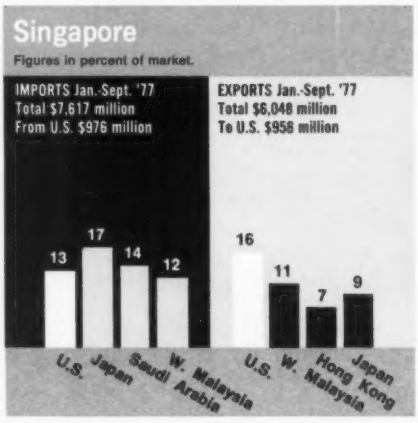
The United States supplied about 13 percent of the country's imports in 1977. Major factors accounting for the U.S. market position include Singapore's continued economic growth and strong balance of payments position, the price competitiveness enjoyed by U.S. suppliers, and the country's demand for capital goods.

GNP in current prices increased 9 percent in 1976 over 1975, with the outlook for 1978 even better as the world's economy continues to improve. Singapore's balance of payments showed a $293 million surplus in 1976 and total foreign exchange reserves reached $3.3 billion.

Singapore recovered from the recession rather well, and output is growing at a steady pace, reflecting renewed foreign demand. The health of the manufacturing sector is improving, with the petroleum industry, Singapore's most important manufacturing group with over 41 percent of the Republic's output in 1976, posting a 29 percent increase over the previous year. Oil refineries are upgrading their facilities and the Sumitomo petrochemical complex will certainly provide additional stimulus to the industry as well as sales opportunities for U.S. goods and services.

Singapore's Economic Development Board emphasizes capital intensive industrialization. As a result, the market for U.S. capital goods is expanding rapidly. Best prospects for U.S. goods exist in building and construction supplies and equipment, machine tools, aviation and communications equipment, energy systems, process control and laboratory instrumentation, packaging and materials handling equipment, business machines, and data processing equipment. In addition, the Republic, with the second highest per capita income in Asia, has become an increasingly attractive market for U.S. consumer items. It should be remembered that the market is a competitive one and very conscious of price, financing, delivery time and after-sale service.

When viewing Singapore as a market, the country's entrepot function must also be taken into consideration. As a stable home for some 2.3 million people, the Republic serves as the regional shopping center providing transportation, communication, financial and medical services for South Asia. It is also a center for the offshore oil industry and is used by many firms as a base for the supply of parts, equipment and services to their customers in the region.



The U.S. Government's International Marketing Center in Singapore promotes the sale of U.S. goods and services through a variety of techniques, including product displays. Exhibitions featuring energy systems, security and safety equipment, equipment for the communications industries and scientific and industrial laboratory instruments are planned. Between regularly scheduled promotions, U.S. firms are invited to utilize the center's facilities to exhibit products and hold sales meetings.

TAIWAN

Traditional Growth Prevails In Face Of Difficulties

Taiwan's traditional GNP growth rate of 8 percent (in real terms) once again prevailed in 1977, while the industrial production index reached a level of 203.1 compared to the base number of 100 for 1971. This occurred in spite of two very destructive typhoons in July, which disrupted harbor activity, as well as problems in the textile industry, which faces rising costs, increased competition, and restrictive quotas in several foreign markets.

According to Andre Williams of the Bureau of Export Development, all indications are that 1978 will find the economy of Taiwan continuing its upward motion, with the manufacturing sector accounting for the lion's share of progress. Chinese authorities pursue a conservative policy in fiscal and monetary matters, with the result that the rate of inflation is one of the lowest in the world (under 5 percent), while per capita income, buttressed by virtually full employment, now exceeds $1,100, one of the highest in the Far East.

In addition, prospects for U.S. exporters are made brighter by the stated policy of the Government of the Republic of China to "Buy American," aimed at correcting part of the imbalance in the trade between Taiwan and the United States, which was expected to reach $1.5 billion in 1977 on a two-way total of $5.5 billion. This huge surplus for Taiwan has caused concern on both sides of the Pacific: the policy is intended to channel more purchases of capital goods to the United States and away from Japan, heretofore the major supplier of industrial products.

In another development of possible benefit to U.S. exporters to Taiwan, the Board of Foreign Trade has abolished the regulation which required importers to submit quotations offered by local agents in order to obtain an import permit. This means importers can deal directly with their U.S. principals and avoid the payment of unreasonably high commissions. Since import duties are levied on the c.i.f. price, this may turn out to make a very substantial difference in favor of the U.S. supplier.

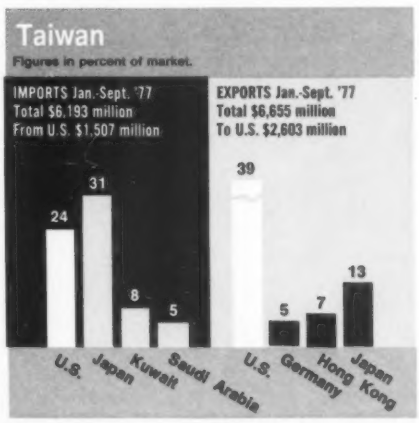
The United States is the No. 1 customer of Taiwan, with close to 40 percent of the island's exports. The United States lags behind Japan as a supplier to Taiwan, although sales of close to $2 billion are a respectable 24 percent of Chinese imports. This means that there exists a solid foundation on which to build additional U.S. exports. The economy is closely controlled by the government and all imports must be approved by the authorities. Opportunities are concentrated in machinery, equipment, and systems designed to enhance the productivity of Taiwan and the quality of life of the population, whether by improving housing, transportation or health care.

The Commerce promotional program tentatively planned for the Taipei Trade Center reflects these priorities and will include exhibitions of electronics industry production and test equipment, printing and graphic arts equipment, pollution control equipment, energy systems, communications equipment, plant operations equipment, and building and construction equipment. A trade mission featuring plywood and woodworking machinery is also scheduled.

Past experience shows a high level of acceptance for American goods, in spite of their higher delivered price when compared with Japanese goods. The business confidence level is exceptionally high, mirroring a disciplined society which takes its obligations seriously.

Foreign investment, once one of the wonders of the Chinese climb to the ranks of industrialized nations, has tapered off significantly, in part because of the echoes of the oil crisis, but this is no cause for alarm. Most U.S. companies still consider Taiwan an excellent place to invest, as shown by total U.S. investment of half a billion dollars.

The structure of the manufacturing industry continues its gradual change as the effect of the policy to encourage high technology, capital intensive activities takes hold. As a result, the output of heavy industry for the first nine months of 1977 increased by 14.5 percent over the same period in 1976, while light industry increased only 5.2 percent (light industry includes textiles, garments, processed foods, and plywood and furniture). Light industry is still considered important, but heavy industry is being expanded more rapidly, and is the area where Chinese authorities seek to promote investment. One of the inducements offered is a five-year tax holiday.



THAILAND

Economy Performs Well, But Problems Loom In '78

Thailand apparently fell short of reaching its targeted 7 percent growth rate for 1977. Led by record rice shipments, total exports were up over 1976. Industrial production continued to increase faster than agricultural production, although Thailand is still basically an agricultural economy. If the new, pragmatic foreign policy fostered by Prime Minister Kriangsak is successful, the now stagnant foreign investment picture could improve this year. But the threat of external aggression and the continuing instability of Thailand's Government continues to retard the full development of the economy, adds Todd W. Burns of the Bureau of Export Development.

U.S. exports to Thailand were up over 50 percent from 1976 to $472 million through November and probably reached a half billion dollars by the end of 1977. U.S. imports are also up, but the United States continues to enjoy a comfortable trade surplus with Thailand. Total Thai imports were up over 1976 and were projected to reach $4.4 billion for 1977. At mid-year, exports were also up 19 percent over the same period in 1976. Rice leads all foreign exchange earners with over 2.8 million tons shipped, but the forecast for 1978 is for exports of only 1.5 million tons. Reduced rice sales, along with low world sugar prices and tougher import quotas on textiles, are three problem areas in Thailand's foreign trade picture for 1978.

Government planners are still confident the economy will grow at 7 percent annually over the period of the Fourth Five-Year Plan (1977-81). The trade deficit should be about $900 million this year, with a balance of payments deficit estimated at $200 million, a sharp increase from 1976's $4 million. The expanding economy and higher oil costs have forced inflation up this year and Thai officials fear it will reach 10 percent by year's end.

The major commercial story in Thailand in the continuing negotiations between the government and U.S. oil firms over development of the gas fields in the Bay of Thailand. Although negotiations have been dragging on for some time, the gov-

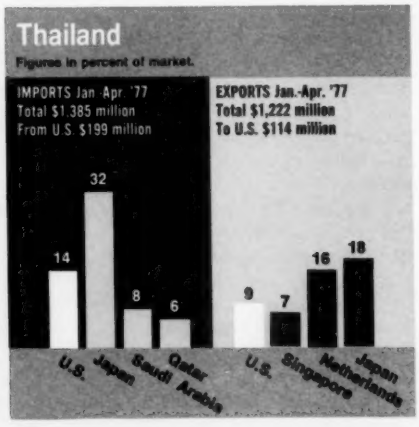
ernment is still confident the gas will be flowing into Bangkok by January 1981. Not only will the gas help reduce Thailand's oil import bill, but it is also to be the basis for a sponge iron plant.

Imports are forecast to continue to grow as new companies are formed and old companies expand. There continue to be good investment and sales opportunities for American companies in Thailand. The development plan places major emphasis on development of rural income and employment, with massive funding for dams, road development, irrigation projects and rural electrification. The government recognizes the gap between rural and urban incomes and employment and the development plan aims to correct these imbalances. Capital equipment to complete these projects, as well as construction equipment and consulting services, are all needed.

The best prospects seem to be in agribusiness. Most of Thailand's foreign exchange comes from the sale of raw agricultural products and the government is anxious to not only expand but to increase processing done in the country. As this occurs, opportunities for the sale of food processing and packaging equipment, and certain lines of agricultural equipment, are expanding. The Department of Commerce is sponsoring an agribusiness exhibition in Bangkok early in 1979 to help U.S. companies develop this market.

The continuing expansion of shipping through Bangkok's port, along with expansion of the airport, planned construction of a new deep-sea port and expansion of several regional airports and ports, indicates a good market for materials handling equipment. Commerce will sponsor a materials handling trade mission in September to exploit these opportunities.

There are also good sales possibilities for medical equipment, and a catalog show is planned for November on medical, hospital and surgical equipment. Other sales opportunities exist for office equipment, communications equipment, furniture-making machinery and mineral prospecting and processing equipment.



SUB-SAHARAN AFRICAN ECONOMIES BOLSTERED BY COMMODITY SALES

U.S. Is Running Huge Trade Deficit With This Area

Sub-Saharan Africa continues to offer a receptive market to imaginative, enterprising U.S. businesses. U.S. exports to the area for the first 10 months of 1977—mainly food, machinery, chemicals and textiles—reached $2.65 billion, a 2.3 percent increase over the same period in 1976. U.S. exports by year-end 1977 were projected to reach $3.4 billion, a 7 percent increase over the 1976 total of $3.18 billion, according to Ross S. Quan, a Commerce Department Regional Affairs Officer.

The U.S. ten-month export figure of $2.65 billion, given above, compared with imports into this country of $8.3 billion of African goods, resulted in a record U.S. trade deficit with the region of $5.65 billion through October 1977.

U.S.-Sub-Saharan Africa two-way trade totaled $11.2 billion in 1976. The U.S. appetite for African commodities generated a huge import bill of $8.02 billion, as compared to U.S. exports of $3.18 billion. The $4.84 billion trade deficit for the United States was due to imports of cocoa, coffee, Nigerian crude oil, tobacco, tea, raw cotton, rubber, shellfish, metals, gemstones and spices.

The trade outlook for 1978 for Sub-Saharan Africa appears promising. Those countries having a diversified agricultural, manufacturing and mineral base achieved respectable growth rates in 1977 and are expected to perform well this year. In 1977 overseas commodity sales enabled many countries to build up foreign exchange reserves to improve balance of payments, pay external debt, and invest domestically. On the other hand, those nations which depend on subsistence agriculture or one or two cash crops were still grappling with the readjustment required from the 1973 oil price increase and inflated import costs. The last two years did bring good weather and higher commodity prices for these countries which resulted in larger export receipts. This favorable outlook should hold up in 1978, provided external demand for African commodities, stable oil prices and favorable weather continue.

In addition to foreign exchange earnings, African countries continued to receive long-term inflows from bilateral agreements and international lending agencies. In fiscal 1977 the World Bank allotted loans totaling $964 million to East and West Africa, mainly for agriculture and transport projects.

Best prospects for U.S. business are construction and roadbuilding machinery, agro/irrigation equipment, aircraft, power generators, oil exploration and refining equipment, mining equipment, communications equipment, health industries equipment and educational training aids. Competitively priced equipment is vitally needed to implement several ambitious national development plans, which emphasize infrastructure and energy development as well as agricultural and industrial diversification. African officials seek to broaden foreign exchange capability in order to lessen traditional dependence upon monoculture or single mineral extraction. Principal U.S. competitors are well entrenched to supply the African market, but developments such as the abolition of reverse preferences by African signatories to the 1975 Lome Treaty should benefit U.S. exporters.

While American companies have directed much of their sales efforts to Nigeria, they may well choose to investigate sales opportunities in other rapidly developing economies. Several are highlighted in the country articles that follow.

U.S. exports to the remaining countries in Africa amounted to $1.49 billion in the first 10 months of 1977. Of that total South Africa accounts for about $900 million. U.S. exports to South Africa are running about 20 percent below last year's similar period. Ghana is a large purchaser in this group, having bought $114.7 million of U.S. goods through October; the year-end total should be around the $133 million reached in 1976. Although Ghana is still experiencing inflation and balance of payments difficulties, the country has earned substantial foreign exchange from cocoa and bauxite.

The Cameroonian economy is thriving and gaining momentum due to excellent receipts from a dynamic agricultural sector (coffee, cocoa, timber, peanuts, cotton, palm oil). As of October, U.S. exports reached $48.2 billion, already slightly exceeding the total for all of 1976. The government is now implementing its $2.9 billion Fourth Five-Year Development Plan (1976-81), emphasizing agriculture, natural resources, infrastructure, import substitution and processing. With a stable, western-oriented administration committed to development, the Cameroon warrants serious attention from U.S. business.

In November the U.S. Embassy reopened its doors in Congo-Brazzaville after a 12-year hiatus. The Congolese seek increased trade with American companies, especially in heavy machinery. U.S. exports to the Congo reached $14 million in 1976 and were running at $8 million for the first 10 months of 1977.

U.S. business should watch developments in the following four regional organiza-

tions whose policies may have large implications for U.S. business in the next five years.

Economic Community of West African States (ECOWAS)—With 15 members this is the single largest economic group in Africa. Its purpose is to promote cooperation in industry, agriculture and other sectors.

West African Economic Community (CEAO)—Its six francophone members coordinate legislation and statistics and seek to establish a common external tariff.

Mano River Union (Sierre Leone and Liberia)—Cooperates in several sectors and created a customs union effective October 1977.

Customs Union of Central African States (UDEAC)—Its four members have created the Central African Development Fund to improve development planning and investment opportunities.

Prior groundwork a must

Sub-Saharan Africa generally presents the novice U.S. businessman with diversity and complexity. In-depth market research and a thorough understanding of marketing practices is essential. The Commerce Department provides Overseas Business Reports (OBR's) for practical business information, as well as Foreign Economic Trends Reports providing analysis of current economic developments, to help executives learn more about overseas markets.

Although African nations import primarily European products by tradition, they are increasingly interested in U.S. goods due to attractive prices and good quality. The Commerce Department has scheduled promotion events in agribusiness, telecommunications and public health for 1978 to obtain greater exposure for U.S. products.

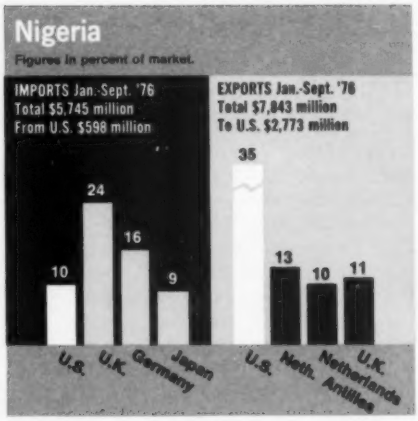
NIGERIA

U.S. Success At Trade Fair May Boost Market Share

U.S. exports to Nigeria should again approach, and perhaps exceed, $1 billion in 1978, according to Reginald F. Biddle of the Bureau of Export Development. Nigeria's total import bill is expected to rise to $10 billion in 1978. Oil revenues fuel the country's economic boom and finance its ambitious, $68 billion revised 1975-80 Third National Development Plan.

However, as imports continue to mount, Nigeria may experience a shortfall in revenue in 1978 and may have to review project spending, and take a critical look at development priorities. It may have to turn to the international money markets in 1978, as was the case in 1977, and possibly scale down some projects and reduce imports.

Nigeria's GDP is expected to reach $33 billion in 1978. Petroleum is the largest single contributor, accounting for about 40 percent, while agriculture, fishing and forestry together make up another 25 percent; other significant sectors are manufacturing and building and construction.



In 1978, the U.S. position as a supplier to this market may improve, as a result of the impact of the highly successful participation of many firms in the U.S. exhibition at the First Lagos International Trade Fair, which concluded in December. U.S. sales during the two-week exhibition were $41 million, with projected sales for the subsequent 12 months estimated at $360 million. Both U.S. success at the Trade Fair and the fall 1977 visit of the Nigerian Head of State to the United States could have positive ramifications for the U.S. position in that market.

The Nigerian Government had originally intended to deny entry to imported goods not carrying metric markings exclusively, effective Jan. 1, 1978. To date, however, specific implementation of the metric markings decree is still being discussed by Nigerian authorities and until such regulations are established dual markings will be acceptable. Although eventual exclusive use of metric markings for all goods to be traded in Nigeria is certain, it now seems likely that the Nigerian Government may put the changeover into effect gradually.

In October the new Tin Can Island Port was opened. This new 10-berth port should help relieve port congestion problems in Lagos. However, some of Nigeria's other problems will continue to make trade with this country difficult. A major foreign exchange scandal in the summer caused a significant slowdown in foreign exchange transactions. The country has also experienced major power and fuel shortages. The power shortage is potentially the more serious of the two events and may cause production cutbacks, particularly if it extends into the early months of 1978. In addition, Nigerian crude oil production declined slightly in the waning months of 1977. If this trend continues into 1978, the combined effect of the power shortage-induced production cutbacks and the lag in oil revenues might produce a growth rate of about 5 percent instead of the forecast 8 to 9 percent.

Although Nigeria offers great potential to prospective investors, certain government regulations have had a discouraging effect on foreign investment. Foremost among these is the Nigerian Enterprises Promotion Decree of 1977, which requires Nigerian participation in all economic ventures in the country. The Decree requires a minimum of 40 percent Nigerian ownership for all enterprises; in many instances 60 or 100 percent is required.

Nigeria also has a wide ranging import prohibition program which covers a wide group of items, including cars above 2,500 cc engine capacity, many textile fabrics, bottled beer, empty beer bottles, champagne, lace, bottled water and cigarettes.

In 1978 the Commerce Department will sponsor in Nigeria seminar missions on concrete building systems, public health equipment and services, and avionics and general aviation equipment, a trade mission on plastics production equipment, and catalog shows on food processing and packaging and school construction equipment.

Best prospects for sales in 1978, in addition to the above, include communications equipment and systems, agricultural machinery equipment and services, motor vehicle maintenance equipment, graphic arts and printing equipment, energy systems, material handling machinery and equipment, business equipment and systems, oil field and process plant equipment, metalworking equipment and educational and training equipment.

GABON

U.S. Firms Are Bidding For Numerous Projects

The United States still finds it difficult to make headway against French and European competition in the $550 million Gabonese import market. U.S. exports in 1977 continued to hover around the $30 million mark—a disappointing amount yet possibly enough to retain our position as Gabon's second leading supplier. Meanwhile, France once more seems likely to have captured about 65 percent of the market and maintained its dominant commercial presence within Gabon, according to Philip Michelini of the Bureau of Export Development.

U.S. exports could grow dramatically during 1978 due to the scheduled delivery of purchased aircraft and the sales opportunities provided by numerous major development projects for which U.S. firms are now actively bidding. While Gabon due to past expenditure and credit excesses is cutting back somewhat on its ambitious $3.5 billion development plan (1977-80),

most programs are moving ahead. Government expenditures of $1 billion (242 billion CFA francs) have been approved for 1978, about 5 percent less than 1977. A separate development budget will be published shortly.

Most announced construction projects will be decided on the basis of international competitive bidding, though in Gabon having a prior foot in the door does not hurt. It has been persistent on-the-spot representation and their ability to communicate easily which has allowed the French to win such a large share of contracts.

Gabonese political leadership, headed by President Omar Bongo, remains pragmatic and fully recognizes that Gabon requires foreign private direct investment, management and technology. During President Bongo's trips to the United States in 1973, 1976, and March and October 1977, he repeatedly urged American business executives to visit Gabon to witness the economic activity and see for themselves the opportunities for trade and investment.

American products retain their excellent reputation in Gabon. Investment opportunities are good, with U.S. investment now slightly exceeding $200 million, second only to that of France.

Several large projects about to get started are of particular interest to U.S. firms. Construction of the $200 million SOGACEL pulp plant is already under way, but none of the required equipment has yet been purchased. Bids will go out within a few months for construction of the Owendo port south extension and for a minerals port at Santa Clara. U.S. firms are actively pursuing the contracts for the economic and engineering studies for the massive Grand Poubara hydro-dam. Union Carbide and United States Steel hold shares in a company to build a ferro-manganese plant in Franceville. Bethlehem Steel is continuing its testing of high-grade iron ore deposits at Belinga. Additional opportunities should emerge during the year.

The Department of Commerce will sponsor in Libreville this May a telecommunications technical trade mission.

Gabon

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Gabon:

U.S., Jan.-Nov. 1977, $28 million
France, Jan.-July 1977, $288 million
Germany, Jan.-Sept. 1977, $28 million
Italy, Jan.-June 1977, $16 million
Japan, Jan.-Sept. 1977, $16 million
U.K., Jan.-Oct. 1977, $9 million

U.S. imports from Gabon, Jan.-Nov. 1977, were $206 million.

IVORY COAST

Booming Economy Draws Record Import Volume

Record import demand to fulfill requirements of the burgeoning Ivorian economy has resulted in a major increase in trade volume with the country's external trading partners. U.S. exports to Ivory Coast in 1977 exceeded $100 million for the first time, according to Philip Michelini of the Bureau of Export Development. Prospects for U.S. sales should remain very favorable throughout 1978.

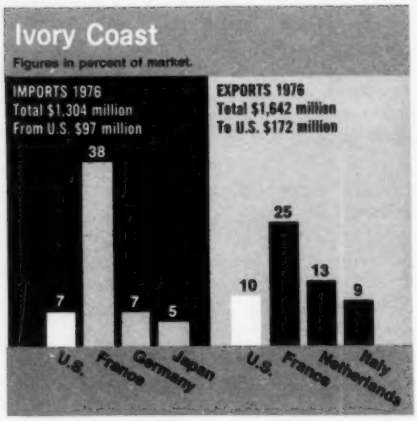
The past year proved to be an outstanding one for Ivory Coast. An excellent coffee and good cocoa harvest sold at record prices led to the most favorable trade balance and foreign reserve holdings in the country's history. The Gross Domestic Product, which in 1976 grew 12.5 percent in real terms, likely expanded at a 15 percent rate in 1977. The year's success was highlighted in October with the announcement that beginning in 1980 Ivory Coast's first oil wells would come into production. Initial volume was projected at 400,000 metric tons annually, sufficient to meet 40 percent of national requirements.

The economic outlook for 1978 is for less spectacular but still very steady and significant growth. Coffee production probably will be less but income should remain near 1977 levels due to high prices and a large stock carry-over. The cocoa harvest is expected to equal or exceed last year's, with market prices continuing near record levels due to persistent world market demand. Timber and other tropical product sales should remain good.

During 1977 the Ivorian Government made a sustained effort to continue to carry out the objectives of the $7 billion Fourth Five-Year National Development Plan (1976-80). Major new investments, requiring large inputs of imported goods and services and foreign private capital, are under way or planned during 1978 in agriculture, processing of agricultural products, forestry, port expansion, refinery expansion, telecommunications, highway and railway construction, maritime fleet expansion and education.

Government recurrent and development expenditures in 1978 are estimated at $2 billion (480 billion CFA francs). Investment spending, largely from the public sector, has been even higher than that projected in the development plan.

In addition to increasing trade, U.S. commercial involvement with Ivory Coast grew during 1977 as nearly a dozen U.S. companies opened offices in Abidjan. Several more are slated for opening in 1978. Close to 100 American firms, subsidiaries and affiliates are now operating directly in Ivory Coast, including half a dozen



with manufacturing plants. Well over 300 American product lines are sold there.

The Department of Commerce will sponsor an agri-business technical trade mission in Abidjan Feb. 15-18, and has scheduled a telecommunications technical trade mission for May.

KENYA

Record Prices For Crops Help Brighten Prospects

The Kenyan economy reaped the benefits of record world prices in both the coffee and tea markets in 1977. Real growth in GDP rose 6 percent, compared to only 1 percent in 1975. The value of U.S. exports was up 18 percent from 1976, adds Mary L. Manley of the Bureau of Export Development.

Promising categories for U.S. suppliers in 1978 include agro-industrial machinery, road tractors, agricultural chemicals, measuring and controlling instruments, and office equipment. As in 1977, transportation items, including aircraft and locomotives, will help the United States maintain its position in the market.

Kenya's economic prospects look brighter than they have for years. The government opted to use its windfall from coffee exports to retire 16 percent of its external debt through restructuring from relatively expensive external to cheaper internally funded debt. The rate of inflation was held to 10 percent as large commercial bank borrowings absorbed a substantial share of the banking system's excess liquidity.

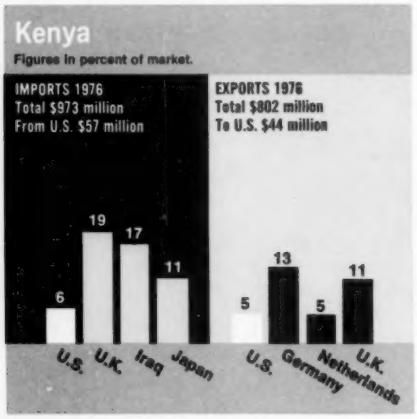
The FY78 budget indicates a shift from basic infrastructure to a more sophisticated level of development. Spending on industrialization and water development has increased while expenditures for transportation have been allocated 9 percent of the total, as against 14 percent earlier.

Large reductions in some sectors will permit major increases in spending for both Kenyan Airways and Railways,

necessitated by the demise of the East African Community in 1977. The government will spend $21.3 million for aircraft and setting up and operating Kenyan Airways, and expenditures on railways will rise by $15 million.

Several internationally-financed projects offer excellent sales leads. In the year ended June 30, Kenya received $155 million for agricultural and rural development, light industrial development, transportation and tourism from the World Bank Group. This amount included $40 million for the Bura irrigation system in Eastern Kenya, $20 million to the Industrial Development Bank of Kenya to implement medium and large-scale manufacturing projects, and $14 million to help the government carry out its tourism and related programs. Capital equipment and spare parts will be needed for an $84 million program to expand and upgrade the road network.

Commerce plans technical missions for public health in September and avionics and general aviation in December, and a plastics production equipment trade mission in November.

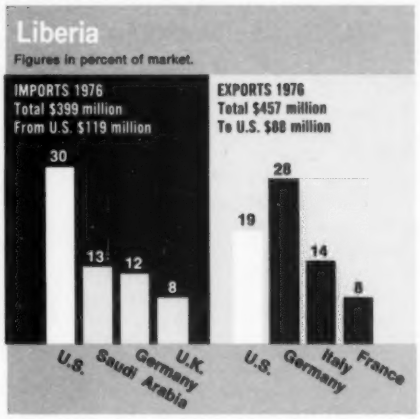


LIBERIA

U.S. Aims At Big Share Of New Business In 1978

The United States is expected to improve its competitive edge in the Liberian market in 1978. Sales of agricultural, construction, mining, telecommunications and transportation goods (including a Boeing 737) should boost the U.S. export total, according to Mary L. Manley of the Bureau of Export Development.

In 1976, Liberian GDP at $863 million was up 9.5 percent from 1975. The cost of living index registered only a 6 percent rise. Monetary indicators point to Liberia's increased economic activity. Private sector liquidity increased considerably, as evidenced by the 59 and 33.5 percent rises in demand deposits and time and savings deposits, respectively. The banking system's improved foreign exchange position



enabled commercial banks to build up large deposits abroad.

In the wake of higher tariffs for certain products since November 1977 and generally inflated costs of material inputs, price is becoming a more significant factor in Liberia's supplier selection. The f.o.b. price, quality and durability of U.S. products still compares favorably with those of foreign suppliers; U.S. competitiveness has tended to offset higher shipping costs.

Saudi Arabia, the number 2 supplier, continues to provide the country's crude petroleum requirements. The Federal Republic of Germany ranks third in the import market. Sales of other countries also have been on the increase, with those of the Republic of China, Spain and Brazil having doubled and those of Argentina having trebled in 1976.

Emphasis on Liberia's $450 million development plan (1976-80) is on agriculture, rural access roads, expansion of electric power, water and telephone services and educational facilities. The plan also calls for increasing the number of productive sectors through introduction of new product lines or stages of production.

The Free Port of Monrovia's Industrial Free Zone offers attractive incentives for setting up processing facilities for goods to be marketed throughout West Africa. Over 30 foreign interests, including some U.S. companies, are considering setting up manufacturing facilities in the new zone. Investors may opt to use the buildings provided or build new factories.

The United States is expected to get the lion's share of new Liberian business in 1978. Established product acceptance and competitive prices will continue to give U.S. suppliers an advantage. U.S. products with good export potential include motor vehicles, pesticides, structural and reinforcement iron and steel, glassware, packaged cleaning compounds, and canned and frozen foods.

Given the market's receptivity to U.S. consumer goods, a U.S. Government-organized Video Tape Housewares Universal Showcase will be held in Monrovia in February 1979.

SUDAN

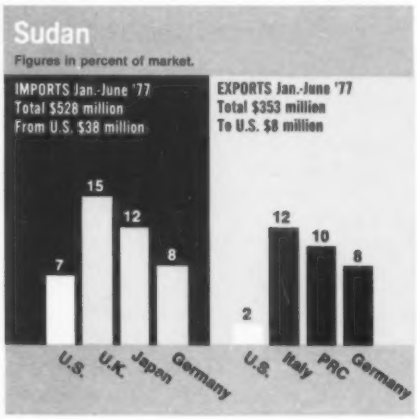
Foreign Exchange Scarcity Limits Export Possibilities

U.S. sales to the Sudan in 1977 fell below the 1976 level of around $100 million, according to Mary L. Manley of the Bureau of Export Development, and exports are expected to move slowly again this year while the Sudan continues to cope with balance of payments problems.

The 1977-83 program of the Arab Agricultural Authority for Investment and Development (AAAID), in tandem with the Sudan's new $6 billion plan, presents long-term business opportunities. In the first phase (1976-85) of the Program, $3.9 billion is to be allocated for productive projects and $1.8 billion for infrastructure. Projects that should enable the Sudan to meet most of its Arab benefactors' needs for agricultural commodities and food products in the 1986-2000 period (the second phase) are to be emphasized. More than 20 percent of the AAAID's projects focus on improving transportation to open up areas for agro-industrial development. In particular, the Jonglei Canal being constructed through the Sudd swamp will shorten the inland water route and provide access to the southern Sudan's vast forest resources by the mid-1980s. Development focus also is on mining and agribusiness.

In addition to expanding opportunities for heavy construction equipment and agroindustrial machinery, sales prospects have been increasing for road tractors, trucks, prefabricated housing and chemicals. Machinery and equipment for irrigation, telecommunications, sugar, textile and peanut processing and road, port and airport construction projects continues to be in strong demand.

Engineering, consultancy and project management opportunities also are likely to develop. Current plans call for 17 new airports. Communications, navigational and maintenance equipment is being purchased for all airports. During 1977-83

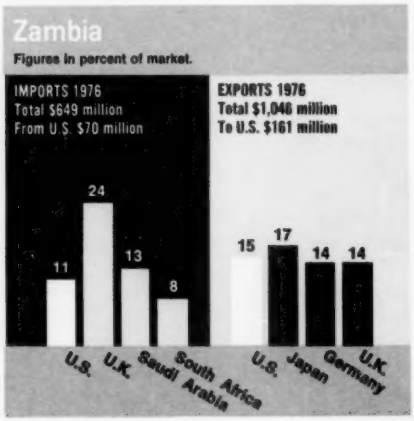


Sudan Railways plans to spend $223 million on track improvements, locomotives, rolling stock, workshops and machinery.

Also, the new port at Suakin offers major sales opportunities for cargo handling and lifting and loading equipment. Prospects also are promising for food processing and packaging, and edible oil processing machinery and equipment.

The Sudan Government welcomes foreign private investment, particularly in agricultural and industrial ventures. New legislation makes it clear that the government seeks to carry out flexible and attractive investment policies. Toward this objective, the newly-founded Sudanese-American Business Council will review investment opportunities during its February meeting in Khartoum.

U.S. Department of Commerce-organized trade missions for telecommunications (June), public health (September), and avionics and general aviation (December) will visit the Sudan in 1978.



ZAMBIA

Sluggish Economic Activity Diminishes Import Demand

U.S. trade with Zambia is not expected to show any significant improvement during the next 12 months, according to Philip Michelini of the Bureau of Export Development. U.S. exports are likely to remain at a diminished level in 1978—a result of the sluggish state of Zambian business activity and a continuing import austerity program imposed by the Government.

The Zambian economy has been badly hurt in recent years by low prices for copper, the country's major economic asset. One effect has been a decline in foreign trade, both exports and imports, with a consequent loss in funds and materials needed to sustain and expand national development efforts. Historically, as copper goes so goes Zambia.

The outlook for copper during 1978 is for increased international demand and slightly higher prices for producer nations. A modest recovery of the Zambian economy is therefore possible, thus making it possible to begin paying off accumulated debts to suppliers and for a relaxation of current import controls. Until such a determination is made by the Zambian Government, numerous U.S. creditors are likely to experience substantial delays in being paid. Exporters to Zambia are reminded that many suppliers are having to wait a year or even more after bills have been paid to the local bank in Zambian Kwacha before payment is remitted in foreign exchange.

Sellers are urged to keep up with current needs and emerging developments. The paths the state-influenced Zambian economy will attempt to pursue in the years ahead should receive some clarification in April or May when Zambia's five-year development plan is scheduled for publication. Preliminary indicators suggest that the plan, slated to go into effect in January 1979, will place a greater emphasis than heretofore on free enterprise initiatives and foreign capital investment.

Having the government's policies and objectives stated explicitly should help to dispel uncertainty among foreign investors and instill more dynamism in the private sector.

U.S. SHARE OF IMPORTS INTO SELECTED COUNTRIES

Area and country	1976 Imports From world	1976 Imports From U.S.	1976 Imports U.S. share	1977 Imports January through latest month: Latest month	1977 Imports From world	1977 Imports From U.S.	1977 Imports U.S. share
	Million dollars		%		Million dollars		%
WESTERN HEMISPHERE							
Barbados	237	54	22.9	Sept.	200	52	26.1
Bermuda	165	86	51.8	(1)	(1)	(1)	(1)
Guyana	362	104	28.6	June	170	49	28.9
Paraguay	220	22	10.2	Oct.	252	30	11.9
Uruguay	599	49	8.3	June	221	31	14.2
WESTERN EUROPE							
Cyprus	433	24	5.5	Aug.	399	20	5.0
Iceland	470	49	10.5	Oct.	466	32	6.8
Ireland	4,192	355	8.5	Nov.	4,926	448	9.1
Malta	423	43	10.2	June	262	24	9.0
NEAR EAST							
Bahrain	1,664	145	8.7	Sept.	1,519	100	6.6
Jordan	1,022	93	9.1	May	526	36	6.8
Oman	673	44	6.6	(1)	(1)	(1)	(1)
Qatar	833	65	7.8	(1)	(1)	(1)	(1)
Syria	2,363	[2]136	[2]5.8	May	1,111	(1)	(1)
FAR EAST-SOUTH ASIA							
Bangladesh	882	144	16.4	Mar.	211	26	12.1
Burma	194	10	5.3	June	95	(1)	(1)
Fiji	261	11	4.4	Mar.	67	3	4.1
Sabah	469	[2]48	[2]10.2	Sept.	353	39	11.2
Sri Lanka	554	45	8.1	June	395	38	9.7
West Malaysia	3,353	405	12.1	Aug.	2,912	360	12.3
SUB-SAHARA AFRICA							
Burundi	58	3	4.8	June	33	(1)	(1)
Cameroon	608	48	7.9	Mar.	197	(1)	(1)
Central African Empire	79	2	2.4	(1)	(1)	(1)	(1)
Ethiopia	350	37	10.5	June	181	(1)	(1)
Gambia	74	3	4.4	Mar.	19	1	3.8
Malawi	206	7	3.4	June	103	5	4.8
Mali	150	4	2.4	(1)	(1)	(1)	(1)
Mauritius	359	11	3.1	June	211	(1)	(1)
Senegal	[2]411	[2]25	[2]6.2	(1)	(1)	(1)	(1)
South Africa	7,277	1,572	21.6	Aug.	4,232	855	20.2
Tanzania	622	36	5.8	June	330	11	3.3
Uganda	143	5	3.4	May	105	1	0.8
Zaire	684	97	14.2	Mar.	182	(1)	(1)

Note: The selected countries are those whose total imports were valued at $50 million or more in 1976 and are not covered in the country articles in this issue. Other countries meeting these criteria were omitted for lack of data. In order to present comparable statistics for all countries, import data have been adjusted from an f.o.b. to a c.i.f. valuation for the Republic of South Africa and for Paraguayan imports from the United States.

[1] Not available. [2] Estimated from partial year data.

Sources: Official trade statistics of listed countries.
International Monetary Fund, International Financial Statistics.

☆ U.S. Government Printing Office: 1978, 240-851/15

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